S. Hrg. 98-54

# AGRICULTURAL ACT OF 1983

## HEARING

BEFORE THE

SUBCOMMITTEE ON
AGRICULTURAL PRODUCTION, MARKETING,
AND STABILIZATION OF PRICES

OF THE

COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY
UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

FIRST SESSION

ON

## S. 36

TO AUTHORIZE SPECIAL PAYMENT-IN-KIND LAND CONSERVATION PROGRAMS, TO PROVIDE AUTHORITY FOR ACTIVITIES TO DEVELOP AND EXPAND MARKETS FOR U.S. AGRICULTURAL COMMODITIES, AND FOR OTHER PURPOSES. (AGRICULTURAL ACT OF 1983.)

FEBRUARY 3, 1983

Printed for the use of the
Committee on Agriculture, Nutrition, and Forestry

U.S. GOVERNMENT PRINTING OFFICE
17-759 O WASHINGTON : 1983

S161-9

## COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

JESSE HELMS, North Carolina, *Chairman*

BOB DOLE, Kansas
RICHARD G. LUGAR, Indiana
THAD COCHRAN, Mississippi
RUDY BOSCHWITZ, Minnesota
ROGER W. JEPSEN, Iowa
PAULA HAWKINS, Florida
MARK ANDREWS, North Dakota
PETE WILSON, California
ORRIN G. HATCH, Utah

WALTER D. HUDDLESTON, Kentucky
PATRICK J. LEAHY, Vermont
EDWARD ZORINSKY, Nebraska
JOHN MELCHER, Montana
DAVID H. PRYOR, Arkansas
DAVID L. BOREN, Oklahoma
ALAN J. DIXON, Illinois
HOWELL HEFLIN, Alabama

George S. Dunlop, *Chief of Staff*
J. Robert Franks, *General Counsel*
Carl P. Rose, *General Counsel and Staff Director for the Minority*

---

### Subcommittee on Agricultural Production, Marketing, and Stabilization of Prices

THAD COCHRAN, Mississippi, *Chairman*

BOB DOLE, Kansas
RUDY BOSCHWITZ, Minnesota
MARK ANDREWS, North Dakota
JESSE HELMS, North Carolina

PATRICK J. LEAHY, Vermont
WALTER D. HUDDLESTON, Kentucky
EDWARD ZORINSKY, Nebraska
JOHN MELCHER, Montana
ALAN J. DIXON, Illinois

# CONTENTS

Page
Cochran, Hon. Thad, a U.S. Senator from Mississippi, opening statement .......... 1
Boschwitz, Hon. Rudy, a U.S. Senator from Minnesota .......... 2

## CHRONOLOGICAL LIST OF WITNESSES

Ahalt, Dawson, Acting Deputy Under Secretary for International Affairs and Commodity Programs, U.S. Department of Agriculture, accompanied by Terry Barr; and Everett Rank, Administrator, Agricultural Stabilization and Conservation Service, U.S. Department of Agriculture, accompanied by Roy Cozart, Assistant Deputy Administrator .......... 3
Frederick, Robert, legislative director, National Grange .......... 36
Senter, David, national director, American Agriculture Movement .......... 37
Frazier, Charles, Washington director, National Farmers Organization .......... 39
Durando, Michael, assistant director, national affairs, American Farm Bureau Federation .......... 40
Mullins, Robert, legislative director, National Farmers Union .......... 42
Fifield, Dick, Alabama Farm Bureau Federation .......... 43
Weems, Ralph, first vice president, American Soybean Association .......... 50
Loeslie, Don, president, National Association of Wheat Growers .......... 51
Newman, Ralph S., Jr., president, Rice Millers' Association .......... 53
Stabler, Drew, treasurer, National Corn Growers Association, accompanied by Veryl Bailey .......... 54
Sampson, Neil, executive vice president, National Association of Conservation Districts .......... 55

## APPENDIX

Helms, Hon. Jesse, a U.S. Senator from North Carolina, statement .......... 61
Huddleston, Hon. Walter D., a U.S. Senator from Kentucky, statement .......... 61
Heflin, Hon. Howell, a U.S. Senator from Alabama, statement .......... 62
Dixon, Hon. Alan J., a U.S. Senator from Illinois, statement .......... 64
Pryor, Hon. David, a U.S. Senator from Arkansas, statement .......... 64
Boren, Hon. David L., a U.S. Senator from Oklahoma, statement .......... 65
Zorinsky, Hon. Edward, a U.S. Senator from Nebraska:
    Letter dated February 2, 1983, to Senator Cochran .......... 66
    Nebraska Association of Farmer-Elected Committeemen, statement .......... 66
    Oelsligle, Donald D., and Ronald M., letter dated January 24, 1983, to Senator Zorinsky .......... 67
Baucus, Hon. Max, a U.S. Senator from Montana, letter dated February 2, 1983, to Secretary of Agriculture, John Block .......... 68
Ahalt, J. Dawson, Acting Deputy Under Secretary for International Affairs and Commodity Programs, U.S. Department of Agriculture:
    Statement .......... 69
    Final regulatory impact analysis of PIK .......... 70
    Fact sheet—payment in kind .......... 83
    General question and answers on the operation of PIK .......... 85
    Questions submitted by Senator Hatch to the Department of Agriculture and answers thereto .......... 101
    Questions submitted by Senator Boren to the Department of Agriculture and answers thereto .......... 101
    Questions submitted by Senator Pryor to the Department of Agriculture and answers thereto .......... 103
Frederick, Robert M., legislative director, National Grange, Washington, D.C., statement .......... 105

Page
Senter, David, American Agriculture Movement, Inc., testimony of .................... 110
Frazier, Charles, National Farmers Organization, statement .............................. 112
Durando, Michael V., assistant director, national affairs division, American Farm Bureau Federation, statement .................................................. 114
Mullins, Robert J., director of legislative services, National Farmers Union, statement .................................................. 124
Loeslie, Don, president, National Association of Wheat Growers, statement...... 127
Stabler, Drew, treasurer, National Corn Growers Association, statement with attachment .................................................. 130
Weems, Ralph, first vice president, American Soybean Association, statement.................................................. 134
Newman, Ralph S., Jr., president, Rice Millers' Association, statement ............ 140
Sampson, Neil, executive vice president, National Association of Conservation Districts, statement.................................................. 147
Fifield, Richard, Alabama Farm Bureau Federation, statement............................ 149
Reeves, Samuel T., president, American Cotton Shippers Association, letter dated February 14, 1983, to Senator Cochran, with attached letter to Secretary Block dated February 10, 1983.................................................. 152
S. 36, reprint of.................................................. 154

# AGRICULTURAL ACT OF 1983

---

## THURSDAY, FEBRUARY 3, 1983

U.S. Senate,
Subcommittee on Agricultural Production,
Marketing, and Stabilization of Prices of the
Committee on Agriculture, Nutrition, and Forestry,
*Washington, D.C.*

The subcommittee met, pursuant to notice, at 9:00 a.m., in room SD 138, Hon. Thad Cochran (chairman of the subcommittee) presiding.

Present: Senators Cochran, Boschwitz, Huddleston, and Melcher.

Also present: Senators Boren and Heflin.

### STATEMENT OF HON. THAD COCHRAN, A U.S. SENATOR FROM MISSISSIPPI

Senator **Cochran**. The subcommittee will please come to order. I want to welcome everyone to this hearing under the auspices of the Subcommittee on Agricultural Production, Marketing, and Stabilization of Prices of the Senate Committee on Agriculture, Nutrition, and Foresty. We have administration officials here this morning along with two panels, one including farm organization representatives, and another including commodity group representatives, as well as a representative of the National Association of Conservation Districts.

We appreciate the response of all of you to the call for this hearing, which we have scheduled to look into the administration of the payment-in-kind program that was recently announced by the Secretary of Agriculture. As we all know, the farm economy is severely burdened by accumulated surplus stocks which have depressed prices to the level it makes it virtually impossible for farmers to farm any major crop at a profit. This rapid buildup in stocks resulted from a combination of factors: weak demand caused by the worldwide recession, the strength of the U.S. dollar in comparison with foreign currencies, and subsidies by competitors, as well as two record crops in a row. Last fall it became clear that immediate action was needed to get the supply and demand situation in agriculture back into balance. On November 10 last year, I announced plans to introduce comprehensive legislation which included an improved acreage-reduction program and an export bonus program, which would allow us to regain export markets which had been lost due to subsidies by our competitors.

This bill was introduced by Senator Huddleston of Kentucky and me on December 3 as S. 3074 and reintroduced last week as S. 36.[1] It contains both the domestic and export PIK programs.

The original bill was reported by the Senate Agriculture Committee, but due to constraints at the close of the last session of Congress, time did not permit the legislation to be fully considered by the Senate.

Because of the urgency of the situation and the need to get more effective acreage reduction programs in place, I along with a number of other Senators urged the Secretary to go ahead and implement the PIK program consistent with the authority he had to do so.

On January 11, the President announced the domestic payment-in-kind program. Two weeks ago, the Secretary announced a wheat flour sale to Egypt, using the concept of the export PIK program.

I am very pleased that these actions have been taken. I believe they are steps in the right direction.

The purpose of this hearing is to give the Department the opportunity to review for us the program that has been announced and in particular to discuss how they have addressed some of the concerns raised during the Senate Agriculture Committee's consideration of S. 3074. We also are going to hear from various farm, commodity, and conservation groups affected by the PIK program and get their views on how effective the program will be and the effectiveness of the implementation of it.

We started this hearing early this morning because we do have a number of groups to hear from. We must complete the hearing around noon because of other matters that are scheduled. Some of the Senators who are interested in this hearing indicated to me that they may be a little late in arriving this morning because of earlier commitments today.

I am glad Senator Boschwitz of Minnesota, a stalwart member, is here. Would you care to make a statement at this time? You are certainly welcome to do so.

## STATEMENT OF HON. RUDY BOSCHWITZ, A U.S. SENATOR FROM MINNESOTA

Senator Boschwitz. Thank you, Mr. Chairman. I am pleased to be here. I held rather extensive hearings about PIK throughout Minnesota during the recess. I found it to be a very broadly accepted concept. I am anxious to hear exactly what signup, if any, has already occurred. It is a well-conceived program and I want to compliment the Department. They gave me two very fine people to go throughout my State and help explain PIK. Tom Vom Garleem and Grant Buntrock are extraordinarily well qualified. I think they helped the image of the Department very substantially in the State of Minnesota. They apparently had a hand in formulating the details of the PIK program. I think they instilled confidence in Minnesota farmers that the program was well thought through and that it has an excellent chance of achieving its objectives.

---

[1] See pp. 154-65 for a reprint of S. 36.

I think the Department should be complimented in developing this program. I think it is the most imaginative approach that has been taken to improve the agricultural situation while I served on this committee.

Senator **Cochran**. Thank you, Senator.

Welcome to the hearing, Senator Heflin. We are about to hear from a Department official. These officials will review the PIK program and the administration of it. We are just completing opening statements. Feel free to make any statement you would like.

Senator **Heflin**. I have an opening statement for the record.[2]

Senator **Cochran**. Without objection, it will be inserted into the record.

We want to welcome Dawson Ahalt, Acting Deputy Under Secretary for International Affairs and Commodity Programs with the Department and Everett Rank, who is here this morning. He is Administrator of the Agricultural Stabilization and Conservation Service, charged with the administration of the program.

Would you introduce the others who are with you this morning?

Mr. **Rank**. Yes. On my right is Roy Cozart, Assistant Deputy Administrator, State and County Operations, who helped put this PIK program together. Mr. Ahalt has one of his assistants with him.

Mr. **Ahalt**. Mr. Chairman, Terry Barr is here. He heads up our economic analysis staff in the Department.

Senator **Cochran**. Thank you. Mr. Rank, you may proceed with any opening statement, or if Mr. Ahalt would prefer to lead off, please proceed in any fashion that you wish.

## STATEMENT OF DAWSON AHALT, ACTING DEPUTY UNDER SECRETARY FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY TERRY BARR; AND EVERETT RANK, ADMINISTRATOR, AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY ROY COZART, ASSISTANT DEPUTY ADMINISTRATOR

Mr. **Ahalt**. Thank you, Mr. Chairman.

My colleagues and I appreciate the chance to come up and visit with you and the other subcommittee members and to talk about the payment-in-kind program.

As you know, the Department of Agriculture is giving this program a high priority. As we talk and work with farmers around the country, we feel confident that there is a broad-based consensus and strong support for the payment-in-kind program. I think it is fair to say that there is widespread belief that, given the problems that face agriculture today, this is really the best tool that we have available to deal with the problems. So, we agree with you that this is a high priority program, and we are pursuing it with every effort that we can bring to bear.

Last year, of course, your subcommittee discussed this matter. The Congress was not able to give us the legislative changes that we sought to implement the payment-in-kind program. As a result, we went back to the Department and began working hard to try to put the program together under existing authority.

---

[2] See p. 62 for the prepared statement of Senator Heflin.

We felt that, given the serious situation that faced farmers, we could not wait another year and let the surpluses build. Thus, we made several changes in the program in order to operate it under existing authorities. We announced that program on January 11 of this year. Signup began out in the county offices on January 24 and will end on March 11. Accordingly, since we are operating the program under existing authority, we are not seeking legislative changes at this time.

Moreover, since me are already into the second week of the program in signup, and farmers are planting in the Southern part of the United States, we believe that any changes that would be made in the program would be counterproductive and confusing to farmers who are coming in, working with the county officials and signing up.

Thus, we urge the Congress not to move ahead with any legislative changes that would require us to change the announced program. We believe that that would be bad for farmers and bad for agricultural economy. Therefore, the administration is strongly opposed to any legislative changes.

Mr. Chairman, I do not have a lengthy statement to present here today. Rather, what I would like to do is to submit for the record these few paragraphs. Attached to that is a copy of our impact analysis that is now out for comment, a short fact sheet highlighting some major impacts of the program, and a set of questions and answers that we have made available.[3] I think that we can make the best use of your time this morning by trying to respond to your questions and sharing with you the experience that we have gained thus far with this program.

Senator COCHRAN. Those items will be made a part of the record. We appreciate your furnishing them to the committee.

Mr. Rank, do you have a statement?

Mr. RANK. I do not have a statement, Mr. Chairman, but I certainly will be happy to respond to any questions that Senators may have.

Senator COCHRAN. We appreciate that.

You mentioned that, while you are not going to request legislation to make any changes in the program and would not welcome that, would it still be the wish of the Department that legislation clarifying the legal authority of the Secretary to implement such a program be adopted by Congress?

Mr. AHALT. Mr. Chairman, our position is that we are not asking for any legislative changes that would require us to alter the program. There may very well be an interest to clarify some of the issues that we talked about earlier. But we believe and feel strongly that we have the legal authority through the existing legislation to operate the program.

I perhaps should respond to one other issue, Mr. Chairman, that I know is of concern. This relates to the tax question. I know that there is concern on the part of farmers regarding how the payment in kind will be treated by the Internal Revenue Service. We are not in a position at this time to know how the Internal Revenue Service will rule on that matter. But, I would like to share with you, Mr. Chairman, and the other committee members the information that we have gathered. Our legal people and tax people have been working full time with the Internal Revenue Service since even before we announced the PIK program. Our objective has been to try to make sure that the IRS is aware of the concerns and issues on this matter so that we can try to get a resolution.

---

[3] See pp. 69-100 for the prepared statement, a copy of the impact analysis, the fact sheet, and the set of questions and answers submitted by Mr. Ahalt.

In addition to having our legal people work with the Internal Revenue Service, we also have been meeting regularly with the tax policy people at Treasury to try to work this matter out. While IRS has not made a ruling on this issue at this time, I want to share with you our concerns. We are very vigorously working to try to get this problem resolved so that the program works in the best interests of farmers and can be effective.

Senator COCHRAN. The information that I received in my office, and I hear this from other Senators as well, is that farmers are excited about the prospects for the PIK program. They are signing up in large numbers.

Do [illegible] have an assessment at this time, from around the country, of the extent to which farmers are participating in the program?

Mr. AHALT. I will turn that over to Bud Rank and Mr. Cozart. I do not know that we have any hard statistical numbers, but they can share with you some of the information that they have picked up.

Mr. RANK. Senator, we do not have any hard facts, but through telephone conversations with our State and county offices we find that most counties are busy 8 to 10 hours a day. Farmers are coming into the county offices and a good percentage of those farmers are signing up. A lot of them are asking questions on the facts of the programs so that they can make a proper determination if they do want to enter into the program.

In all areas of the United States and with all commodities, it seems there is a lot of traffic in the county offices with farmers showing an interest in the program.

Senator COCHRAN. The only real complaints that I have heard from my State to this point are from those who are not eligible to participate in the program, particularly wheat farmers who did not have base in the years required for participation in the program and from other commodity groups that were not included, such as soybean farmers.

What is the explanation that you can make available to these wheat farmers who are not eligible to participate and to the soybean farmers who were not included in the program?

Mr. AHALT. Mr. Chairman, I think those issues that you brought up, particularly the one on wheat, reflects a concern that wheat producers have in the Southeast and Southern part of the United States. We have had big increases in acreage going into wheat in recent years. But the concerns that they expressed were concerns that they were raising even prior to the announcement of this program.

Most of those producers have not in the past taken advantage of the program. They decided on their own not to come into the program in the past. Many of them do not have a base, although they were afforded the opportunity to establish one.

The other point is regarding soybeans. To my knowledge, soybeans have never been in any kind of a major acreage reduction program. I did not know that the industry has ever demonstrated a strong interest in this type of program. At least I have not personally received any strong indication on their part to participate in some kind of a major acreage reduction program.

Either Bud or Roy might want to respond also to either of those points.

Mr. RANK. We are hearing from various areas of the United States of the farmers who do not have a base today because they were not in production during the years that bases were established. It is a big concern to those farmers who have this problem. Because of the way the bases are established, unfortunately, these farmers will have to prove a base because they did not plant these crops in 1981 or prior years; 1982 was the first year they planted, so they were not able to have a base for 1983.

Mr. AHALT. The point is, though, that they had a chance in previous years, Mr. Chairman, to come in and sign up and participate in the program and decided for a number of other reasons not to do so.

Senator COCHRAN. There has been concern also expressed to me by persons involved in related agriculture enterprises such as farm equipment dealers, and those in the chemical, seed, and fertilizer businesses, about the adverse impact that taking up to 23 million acres out of production is going to have on their businesses.

Is there included in the material that you furnished the committee an assessment of the impact on these businesses and enterprises as well as the impact on farmers?

Mr. AHALT. Yes, Mr. Chairman. There is an assessment on the agricultural input supply industry. We also have been discussing issues that have been raised by that segment of our agricultural industry. We are aware of their concern.

At the same time, we feel that, in order to get the agricultural input industry back on a sound footing, we have to get agricultural commodity prices strengthened. Therefore, we believe this program is the best way to deal with the problem. By getting supply in better balance with demand, we can see stronger prices and therefore the agricultural input industry can also see improved economic prospects once farmers are doing better.

Senator COCHRAN. It occurs to me that maybe a more balanced approach would help alleviate some of those concerns. For instance, if we would utilize the export PIK concept more aggressively in other transactions such as was done with the wheat flour sales to Egypt, we could get rid of some of the surplus commodities rather than simply by reducing acreage to the extent that it may be planned under the payment-in-kind program.

What likelihood is there for other transactions of this kind to be approved by our Government? I know you must have had to fight a very strong battle with the State Department over this kind of thing. They get very nervous about it. But I think the fact that you did win that battle was a sign of encouragement to farmers and those involved in the export effort with agriculture.

Mr. **Ahalt**. Mr. Chairman, you are absolutely right. We have an agriculture problem today that comes both from the supply side as well as the demand side. While those of us at this table this morning have been working heavily on the supply side, another team within the Department of Agriculture has been moving ahead, working to help facilitate our exports. You mentioned the flour sale to Egypt. As you know, when the President announced the payment-in-kind program, he also announced that an additional $250 million would be available for an expanded blended export credit program. Our people are moving ahead in that area to help further that program, which has been very successful. Right now the Deputy Secretary is in Western Europe. He is meeting with Europeans to talk about the problems that we have with the European Community.

I cannot give you any specific indication this morning, Mr. Chairman, except I can assure you that we are committed to expanding our exports. We are working on several fronts very aggressively.

Senator **Cochran**. Did this wheat flour transaction get the attention of the French and other people in the European Community that we mean business? Do you think that will bring them more quickly to the negotiating table to discuss reducing subsidies that they have used to take our markets and expand their markets at our expense.

Mr. **Ahalt**. I feel very strongly it got their attention. Mr. Chairman, it allows us to continue our discussions in different forums to try to deal with this problem. Whether or not and the extent to which we can make progress in a short period of time only remains to be seen. But I think it was an action that was stronger than they perhaps perceived that we were likely to take.

As I say, I cannot give you any specifics, but we continue to be in there working hard to resolve this problem.

Senator **Cochran**. I remember that, after we introduced the legislation that Senator Huddleston and I developed to provide authority for this export PIK program, I was asked about whether this is going to lead to some kind of trade war. Well, I do not know whether you want to call it war or not, but I call it standing up for U.S. farmers' interests. I think, we need to develop a more aggressive attitude in dealing with some of our international competitors. This is an example of how we can overcome some of these problems by using imaginative and new ideas in making our commodities more attractive in world markets. So, I am hoping we will see more of this.

I congratulate all of you for the effort that you have made in getting this first victory under our belt. Maybe we can move forward into other commodity areas and see similar victories in the future. I congratulate you for that.

Some have asked about the intentions of the Department to carry forward the PIK program into the next crop year. I know it is probably impossible to say with any degree of certainty whether that will be necessary or not. But is it the Department's intention right now to have this as a 1-year program? Or are plans being made to have a 2-year program for some commodities if you do not think the surplus situation will be under control?

Mr. **Ahalt**. Mr. Chairman, we will not know really until signup, the extent to which farmers will be participating in cutting back on the production of the various commodities. Then, of course, we will have to wait and see how weather treats us on the 1983 crops and, of course, how demand turns out. I would say at this point that the rough assessments that we have made on supply and use for 1983, that, while we will be bringing stocks down, it is unlikely that we will bring them down enough to not require a similar kind of program next year.

But we will really have to wait, I would say, until summertime before we can begin to formulate our plans for the year ahead. We would certainly, however, hope to be able to be well ahead of the curve in the new year, Mr. Chairman, in terms of announcing a program for 1984.

Senator **Cochran**. Let me ask you this. If stocks are reduced considerably in some commodities that are under this program but not others, so you think that we need to continue it for one or two, will you consider that? I know you have got corn, wheat, grain sorghum, cotton, and rice, which are the commodities included in the program now. If, for instance, you get the stocks down in rice next year, so that you do not feel the program is needed, could you carry forward the program in the other four areas and leave rice out?

Mr. **Ahalt**. Sure. Mr. Chairman, we will have to look at the relative supply-use balances, and the market situation for the individual commodities in making this decision. We have to also look at the competitive and substitution relationships that exist between commodities in making these decisions. But those are the kinds of decisions that we will go through this summer as we begin to look ahead to 1984.

Senator **Cochran**. I have some other questions, but other Senators are here; I know they have questions as well. I will defer to others at this point. Senator Huddleston?

Senator **Huddleston**. Thank you, Mr. Chairman. I would ask that a statement that I have would be added in the record.[4]

Senator **Cochran**. It will be inserted into the record, without objection.

Senator **Huddleston**. I would like to start by referring to one of the latter questions relating the extent to which we could expect that surpluses would be reduced under the program and how soon. It is almost certain, is it not, that with the volume of stocks we have at the present time, it is not likely that this program will have any real impact on the market in the first year?

Mr. **Ahalt**. Senator Huddleston, we have not projected any major price impacts for the current year. That is correct.

Senator **Huddleston**. As I said one day on the floor of the Senate, we have got surpluses on top of surpluses, and you can reduce those considerably before you get to the point of really having an effect.

It seems to me that there ought to be some confidence on the part of the participant that the program would continue. It also seems to me to throw a considerable amount of risk on those farmers who do participate in the first year, this year, unless there is some protection for the grain that they take as payment in kind.

---

[4] See p. 61 for the prepared statement of Senator Huddleston.

As you know, the bill that Senator Cochran and I have introduced has a minimum support value which came through the committee and was received favorably in last year's floor discussions. The floor is set at 75 percent of the loan rate. Do you contemplate, favor, or have opposition to an approach such as that?

Mr. AHALT. Senator Huddleston, we are aware of the problem that you cite. We do not want a situation where this program would be counterproductive and somehow depress prices. So, what we did when we designed the program was provide farmers up to 5 months additional storage payments for their reserve and loan grain. This will help farmers market these payment-in-kind commodities. In addition, for those farmers who had on-farm stored reserve grain, we gave them a payment equivalent to an additional 7 months in order to help them out.

We know your concern. We also took a look at the proposal that you introduced back last year, which, as I recall, would have offered to give farmers payments equal to 75 percent of the county loan rate. When we calculated those, it suggested that, if prices got that low, we would really have an even greater problem on our hands.

Our position has been that we believe we can do the job better with a storage payment, Senator. We believe that it will help producers market their commodities. Our concern was with the proposal that you offered, even though we believe the support was sufficiently low, we were concerned that it might encourage the farmer to immediately sell his grain. And we do not want a situation that would be counterproductive.

Senator HUDDLESTON. Of course, our concern is that the banks may be encouraging the farmer to sell his grain. If so he could have a serious cash-flow problem.

Mr. AHALT. Senator, we want them to sell their grain, but what we want them to do is to develop a marketing strategy, a careful one. By taking advantage of the market they can therefore minimize their risks and be able to take advantage of this overall situation.

Senator HUDDLESTON. In the initial stages of this, at least, are you not really freeing up more grain and making it available for the market than might otherwise be? You are taking it out of CCC stocks, which have a trigger mechanism for putting it back into the market, and you are putting it into the hands of the farmer, who is already hard-pressed financially. And the farmer could move it immediately to the market if he wants to.

Mr. AHALT. Yes, he can. He can also, Senator, take a market position even before he receives the grain. In other words, he can forward sell those commodities. I am certain today that as farmers look at new crop futures prices, that they are developing a market strategy to take the best advantage of the situation.

Senator HUDDLESTON. But you do not see any possible danger of it actually depressing prices instead of strengthening prices?

Mr. AHALT. What we are trying to do, Senator, is do everything that we can within the program to avoid that. Bud and his people, for example, have worked out an arrangement where, instead of making the commodities available to farmers throughout the country all at one time, they have tried to stretch the period as widely as possible to approximate harvest times across the country.

The other thing I would urge we keep in mind is that, while there is grain coming on the market, it is offsetting the reduction in production. In fact, it is less than the reduction in production. I think that is a good point for us to remember.

Senator HUDDLESTON. Do you have figures on the percentage of total production that is related to the base, that has a base? How much production is outside the base?

Mr. AHALT. How much production is outside the base? I am not sure we have that this morning. But we are working on pulling that together.

Senator HUDDLESTON. Good.

Mr. AHALT. It varies by commodity, Senator. We will try to make it available for you.

Senator HUDDLESTON. It might be helpful.

Do you have an estimate of the cost in Federal outlays of the program you anticipate?

Mr. AHALT. We estimate, Senator Huddleston, that for the two fiscal years 1983 and 1984 that the payment-in-kind program will reduce outlays somewhere in the neighborhood of $3.6 billion from what it would have been had we not implemented this program. Most of that savings comes in fiscal 1984 because we were already committed, of course, under——

Senator HUDDLESTON. Does that include storage costs?

Mr. AHALT. Yes, that is in the total.

Senator HUDDLESTON. How will you acquire the grain that you will use? Do you have enough in the CCC at the present time to operate the program as you anticipate?

Mr. AHALT. The way we plan to operate the program, Senator, is first for those farmers who have reserve grain, that grain will be the grain that will become available to them as payment in kind. For those who do not have farm-stored grain, if they have grain in the regular loan program, we will make that available to them.

Then for previous nonparticipants, producers who have not been in the program, who decide to come into the program, we plan to make CCC grain available.

Senator HUDDLESTON. Can you give us any indication now of what your intentions are on the loan rates for the 1984 crops, whether you will tend to lower them?

Mr. AHALT. For 1984 we plan to propose legislation to maintain the target prices at the 1983 levels and to make 10-cent reductions in the loan rates for corn and wheat.

Senator HUDDLESTON. What effect do you expect that will have on the market?

Mr. AHALT. I think what it will do, Senator, is it will reduce our budget exposure a bit. We believe that it will help deal with this supply problem that we currently have.

We also have a problem that some of our commodities may be priced too high in the world market. So, while we are not proposing changes that are of major magnitude, we do believe that we have to try to hold the line until these large surpluses are worked off.

Senator **Huddleston**. It seems to me like a contradiction there. Our prices are so low in this country you cannot pay production costs. Yet, they are so high in the world market that we cannot reduce the surplus and help raise them in this country.

Mr. **Ahalt**. What I am saying, Senator, is that world supplies are excessive. When world supplies are excessive, we have too much. These large supplies bring downward pressure on prices. We have to be careful that we do not find ourselves in a situation where we are locked in and cannot be competitive in world markets. That is really what we want to try to avoid again.

We are not proposing a major reduction here. Senator, we are really trying to hold the line.

Senator **Huddleston**. I understand that. I know that our problem here, and yours, too, is the question of Federal outlays. But that overrides every other consideration to such an extent that we sometimes, it seems to me, are not able to address a real problem because we are more concerned about the number of dollars than we are about whether or not we are really helping or trying to solve a problem that exists out there.

We just happen to be in a time, it seems to me, in this country, particularly in the agricultural field, where some pretty tough medicine is going to be required, I think, to get back on the right track. I think we worry on every case about the outlay. We may not provide the mechanism that is going to allow our American producers to work their way out of the problem. So, that is something that we will have to be confronted with as the Budget Committee sends down its mandate to us, I suppose.

Mr. Chairman, I yield at this point.

Senator **Cochran**. Senator Boschwitz?

Senator **Boschwitz**. Mr. Ahalt, I have been unable to fathom exactly how additional grain is supposed to be coming on to the market with this program. In addition to decreasing reserves because of the 80 percent corn and 95 percent wheat payments in kind, the two principal items that we are concerned with. Is it correct to say that actually less product will be coming on to the market?

Mr. **Ahalt**. That is correct, and that is a point that I wanted to make here with Senator Huddleston. The amount of grain that will be available will be less, because we are giving a proportionate amount less than the normal production.

Senator **Boschwitz**. What kind of pressure are bankers going to put on farmers? In the event they sign up and have a PIK entitlement, they almost have a negotiable instrument that they can take to the bank. I presume it would serve as pretty good collateral or, they could go on to the futures market and sell it if they wanted. If there is a reason to state that additional commodities will be coming on to the market, it is that more will be likely to go into the futures market and sell it because they will have an assurance of having a certain amount on a certain date even though that certain amount will be 20 percent less than the expected harvest. Is that——

Mr. **Ahalt**. Absolutely, Senator, I am convinced that farmers today are watching these forward markets very carefully. There is no uncertainty regarding their receiving the payment-in-kind commodities. Weather will not affect those commodities that are already in the bin and the farmer will be eligible for if he signs up for the program.

Senator BOSCHWITZ. That is really the only thing that comes to my mind that would cause an additional amount to come on to the marketplace. The assurance of knowing that whatever the market, you are not going to be hailed out. You are not going to have a low yield this year. You are going to have 80 percent of your proven yield. As a result, that could conceivably bring additional stocks to the market.

As far as I can see, this plan does not—I see Bud talking to you—this plan is going to reduce not only the surplus but will reduce the amount that comes on to the marketplace.

Is that a proper analysis?

Mr. AHALT. Yes.

Senator BOSCHWITZ. Indeed, a farmer who has a PIK entitlement in hand, if he goes to his bank, has a pretty good piece of paper there.

Mr. AHALT. I believe he does, Senator. I clearly think he does. I think the market anticipates that because, if you look at what has happened since we have announced the program, the distant futures prices for the major commodities have risen.

Senator BOSCHWITZ. Therefore, in my judgment, the banks are not going to be closing in on farmers. As a matter of fact, there will probably be less likelihood of feeling need to do so.

The ASCS in our State and the various counties have been holding hearings that have been very broadly attended. But, Mr. Rank, you say that you have not yet any meaningful record of people signing up. Is that correct?

Mr. RANK. We do not have any statistics on the exact number of producers signing up, but the county offices are very busy, and farmers are signing up.

Senator BOSCHWITZ. There was a lot of interest in the hearings that I held. At the end of each hearing, I would ask them to tell their Senator what he should do down there in Washington with respect to this program. They supported the program almost unanimously. Of the 1,000 or 2,000 farmers that came to those meetings, only 10 or 20 raised their hands in opposition to the program.

You do not feel that you need additional authority, Mr. Ahalt, with respect to the $50,000 maximum payment or with respect to the trigger price, the release call price, or whatever they call it?

Mr. AHALT. No, we do not, Senator. As I mentioned, when we did not get the legislative changes in the previous Congress, we came back to the Department. Our lawyers worked around the clock, making some changes in how we would operate the program. We thus are operating the program in a manner that best can be described as a "true" payment in kind program. The farmer turns over his reserve or loan grain to the Commodity Credit Corporation. The Commodity Credit Corporation gives that commodity as payment in kind back to the farmer. That payment in kind is not subject to the payment limitation because there is no cash transaction.

Senator BOSCHWITZ. I missed a little bit of your conversation about the IRS and your dealing with the IRS. But I think it is of extreme importance that it be established whether or not the availability date becomes a tax date. In my judgment, that could have quite an impact on the program.

Mr. AHALT. Senator, I was not able to resolve that issue. But what I did indicate was that we are working with them constantly at several levels. We have had our top attorneys working with the IRS people, indicating our concern. We are trying to get this matter resolved.

What I would like to do is allay any concerns that we are not on top of this thing and that something would unfold here that we were not prepared to deal with or that would put the program in some form of jeopardy. I assure you that we are on top of this.

Senator BOSCHWITZ. As you know, I have talked to the Department about the availability date. To the farmers in my State, particularly the southern part, the availability date makes it a little difficult for them to harvest because their bins will be full and they will not have a space to put the new crop. Minnesota has a particularly great deal of storage capacity.

I hope you will continue to give consideration to that.

Mr. AHALT. Senator, I think——

Senator BOSCHWITZ. And also the possibility of moving about some of the stock that is presently in farmer-held reserves or other places for the purpose of opening up storage capability.

Mr. AHALT. We have discussed this particular issue at the Department, particularly the one on flexibility of moving that reserve grain. I think that Mr. Rank and Mr. Cozart have worked out an arrangement that can give farmers some flexibility.

Mr. RANK. Yes, Senator, we do have uniform grain storage agreement contracts with various warehouses so we can move our commodities around and open up space. We will be doing this in the areas where there may be a shortage of space and will try to make space available in those areas where there may be a shortage during harvest period.

Senator BOSCHWITZ. That can become expensive, too. Is there any possibility that somebody who joins the PIK program will be able to feed the corn that he has in farmer-held reserve?

Mr. RANK. He can after the availability date but not before.

Senator BOSCHWITZ. I know that but——

Mr. RANK. Commodities will not be released to a producer for any purpose until the availability date, which is the normal harvest period.

Senator BOSCHWITZ. I guess I understand that as well.

At our meetings we got some comments from the providers of fertilizers, and so forth. By and large, I find that at least in Minnesota they recognize this program has an opportunity for making the farmers' lot better. They consider to be identified with how well the farmer is doing. So, I did not find in Minnesota a great deal of objection to the PIK program by the purveyors of seed and fertilizer and farm machinery. I know that they feel that, if prices remain at these depressed levels, that they will have collection problems that may exceed the loss of business. With a collection problem, you have a double dip kind of thing because you have to pay your supplier, but in the meantime, you are not getting paid. If you do not sell something, you only lose once, not twice.

Mr. **Rank**. Senator, I have had the opportunity in many areas of the United States to talk to farmers and also suppliers and people related in allied industries. I think your response is identical to what they have been saying. They certainly feel that there is going to be some downturn in some areas. But they realize we have got to get strength back on the farm before they can get their farmers paying the bills.

The cooperation has been excellent between allied industries in this PIK program. It is gratifying to hear.

Senator **Boschwitz**. We are going to continue talking to you about barley because of the large carryovers. Not much is held by the CCC, which is something of a problem. We will continue to talk to you about that, maybe getting a little bit too late.

Let me just comment about the wheat flour sale to Egypt by saying that I think the Department did the right thing. I do not want to start a trade war, and I do not think the Department wants to, either. However, some of our so-called friends and allies and trading partners have not fired the opening salvo; they fired a number of shots already. If there is a trade war, I do not think we can come to any other conclusion that it has been started by the other side. To just lay back and take it over an extended period of time, I think, is just going to exacerbate it. The only way to bring it to an end is to take the action that you have done. In the event our friends in the European Community or other places do not get the message, do it again.

Also we have to take some aggressive steps, in my judgment, to open markets that are now closed to us. Whatever steps taken by the Department to bring down those barriers would also be constructive to a fairer and freer trade of agricultural and other commodities throughout the world.

I urge you on. I, together with some of the other Senators, have introduced legislation that will make very clear the authority the Department has in cases like this.

I want to apologize. That is more of a statement than a question. I want to apologize to the other witnesses. I have a series of hearings this morning in other committees. Our chairman was thoughtful enough to start this one at 9 so that I was able to come to the first hour. But I must now excuse myself.

I want to thank the Department again for loaning me for a few days Tom Vom Garleem and Grant Buntrock. They really made a strong impression of the high caliber of professionalism that exists in the Department in Washington. That feeling is not always held by the farmer as he toils and as he sees low prices. I think that the farmers who heard Grant and Tom came away from those meetings feeling that there is knowledge at the Department and that there is a high level of professionalism.

Mr. **Ahalt**. Senator, we appreciate your recognizing their capability.

Senator **Boschwitz**. Thank you very much.

Senator **Cochran**. Thank you, Senator, for your contribution to the hearing. Senator Heflin?

Senator **Heflin**. Mr. Ahalt, in the determination of the difference of the PIK payment on a percentage basis between wheat and the other commodities, you are paying the PIK payment of 95 percent for wheat, 80 percent for the other commodities. Am I correct that one of the reasons for this is that wheat has in many instances a different growing period? Farmers have therefore incurred costs that are different from the other commodities, and therefore an adjustment was necessary in order to take care of those types of situations, particularly because of the growing season difference?

Mr. **Ahalt**. That is correct, Senator. In most cases or virtually all the cases, all the winter wheat had already been planted before this program was announced.

Senator **Heflin**. Then the adjustment that was made was because of a growing season difference primarily. Is that correct?

Mr. **Ahalt**. That was primarily because they had already planted their crop in response to the announced 1983 program.

Senator **Heflin**. And the deadline and times involved required this adjustment?

Mr. **Ahalt**. We felt that was the most reasonable way to deal with that issue.

Senator **Heflin**. All right, now carrying that rationale and that principle forward, we have different growing seasons in different sections of my State. Yet, you have established as a cashing-out of your entitlement, that is when you can sell, as being primarily October 1. Now, with this in mind, you will have in some places in Texas cotton that is harvested, planted early, harvested July 1-July 15. It seems that you are putting an additional cost on the running of your time and the Government paying an additional cost on warehousing charges that could arise as well to other differences. In corn you have differences of harvesting season. In wheat you have differences of harvesting season.

It seems to me that you need to make adjustments of growing seasons relative to various crops and various geographical locations and growing season to cut down on the cost to the Government in this program as well as to give brackets to stagger the market. If you would establish growing season zones, make it reflect the date that you could have your entitlement cashed in and paying being made, it would also have a better effect on the market as well as cost the Government less money.

I would suggest that some type of arrangement be made relative to that matter internally.

Do you see any problem relative to making adjustments as to the dates that you would make available the PIK delivery?

Mr. **Ahalt**. Senator Heflin, we have tried to do exactly what you are suggesting. We have tried to stagger the availability based on the various areas throughout the country. The problem is that it is difficult to deal with all of the various geographic areas that exist throughout the country. That is the difficulty that we have.

We have tried to deal with that in the case of corn. Not all farmers get an October 1 availability. But the problem is that it is difficult for us to be able to divide up the country to take care of every individual case.

Senator **Heflin**. Some adjustments need to be made in other States as we witness in the State of Texas. For example, in corn, in categories in the State of Texas there are four zones on corn; namely, July 15, August 1, September 1, and October 1. It would appear to me that you could pretty well be within four zones elsewhere in the Southeast. A zones approach which is without any great difficulty tied to the normal harvest date of corn on some other PIK commodity would be much fairer.

I would urge that this matter be given more consideration by the Department. I think it is something that we ought to take into account relative to legislation on the PIK program, in the committee on conference report if nothing else.

Mr. AHALT. Senator, again I appreciate your problem. The thing is that you bring up the Texas example. We have sliced Texas several ways. The areas we end up with are still large. I mean, we have such a big area there to start with. I say that not even being a Texan. That is really what we have tried to——

Senator HEFLIN. Why cannot you do it with zones across the country? If you do it for Texas, why cannot you do it for everybody?

Mr. AHALT. We have tried to do that, Senator. We have tried to do precisely what you are suggesting. In the case of wheat, we have a June 1 availability date for the most southern areas of the country. As you move up, the next tier is June 15. As you come above that, it becomes July 1. As we get clear to the northern part of the country, it is August 15.

We are in agreement——

Senator HEFLIN. I have a map here. I look at the State of Texas. I look at the rest of the country. You have three zones in Texas, four zones in Texas. That is cotton. You have wheat; you have three zones in Texas. You have corn; you have four zones in Texas.

Mr. AHALT. That is because, Senator——

Senator HEFLIN. Look at Kentucky here. Look at Mississippi. There is no rhyme or reason to it when considered with what are the actual harvest dates in Alabama and the Southeast.

Mr. AHALT. Senator, the only rhyme or reason we have is that Texas extends up over a larger area. That is really what we have tried to——

Senator HEFLIN. I would again suggest you all review this matter, some adjustments which more accurately reflect actual harvest dates for PIK commodities, particluarly corn, should be made. I say again, it does not make rhyme or reason.

Let me also get into the question of differences of growing seasons in various parts of the Nation. This particularly is where a farmer gets the bid. He goes for his entire property in the county where it is limited to 50 percent. The farmer is, in effect, gambling in making a whole PIK bid at least he in in the Southeast. You have got different growing aspects relative to wheat, corn, cotton, and sorghum. In, for example, on the wheat situation you have a situation where, starting around the 1st of February in my State up until around now, you have to make a choice on whether you nitrate your wheat. If you do not nitrate your wheat, you are going to end up with only one or two bushels to the acre. If you nitrate your wheat, you are going on and you are going to be able to make your normal wheat yield. So, a person who is in a whole bid basis is going to have a gamble.

Why cannot you make an adjustment for those people who get whole PIK bids, and that is a very limited thing, for land preparation cost? You have, in effect, done it in your difference in wheat from the other commodities overall because of the growing season. Make some sort of an adjustment for that group that gets the whole bid. They are going to have to nitrate for wheat before the bid is opened on March 18. We are talking about probably $14 to $25 an acre that it would cost in wheat.

Now, there are other crops, particularly corn in certain geographical areas. Land preparation can be pretty expensive.

In corn, particularly in land preparations in certain areas, particularly in Mississippi and Alabama, you have got pretty good land preparation in terms of cash outlays that you have to go through during the period of, say, the middle of January up until past the 18th of March. In that bracket period, if you get the whole PIK bid and you went through that preparation, in order to be equitable it seems to me that you ought to make some type of an adjustment for those that get bids to take care of their costs that are caused by their location of where they are and the crop that they have. It will vary as to it.

For example, in Texas today there are additional costs in the lower part in southern Texas in regard to land preparation there that no other section of the country might be faced with. So, it seems to me that in that matter that there could be some type of an adjustment.

Mr. **AHALT**. Senator, we are aware of this issue. I will just share with you some problems on our side. We are trying to get sign-up completed within a short time span. Mr. Rank's people in the county offices are working, as he indicated, full speed ahead to get the sign-up completed. What they have to do is to get all of the sign-ups into the 10–30 category. Then we will be able to analyze those to see the extent to which we can accept full bids. We are to complete this entire process by March 11. It is really going to have all of our people flat out.

Senator **HEFLIN**. When you get your bids in on March 18, at that time when you have a whole bid basis, all it is is really a very small amount of work that would have to be done relative to verification, and it can be verified, to take care of the adjustments that exist in certain localities. It is limited to those that get the whole bid. People are going to have to nitrate their wheat. They simply cannot afford to gamble.

These are but some of the inequities that the Department of Agriculture has not contemplated. I think you are now aware of them. I think with a rather minimum amount of effort adjustments can be made to take care of those inequities.

Mr. **AHALT**. I will let Mr. Rank comment.

Mr. **RANK**. Senator, one of the things Secretary Block asked us to do in developing a program was to make it simple and easy to administer. I think every area of the United States has got some precost already applied to the ground. Even the summer fallow areas, they have already got the ground worked. All they need is to go in and seed that ground. In the cotton areas, regardless of where they are, they have already prepared the ground. In the corn areas of Iowa and Illinois, a lot of them have already got the ground plowed.

It would be hard for us to determine what those costs would be. If we say, "well, if you get the whole farm base, we are going to reimburse you for your input cost of that date." So, the person makes his bid to take consideration of the percentage he wants to bid if it might be accepted. But it would be impossible to administer such a program.

Senator **Heflin**. I do not think you see the limited area of it. You get into your set patterns over there in the Department and you do not see the overall situation. You do not have a real problem in this in administering this program. The PIK program is not as simple as it has been advertised. You supposedly have experts in each of these fields that are presumed to know all about the various facets of farming. If this is true then the adjustments I have been talking about can and should be made.

Let me briefly go into some other things that I think are important.

I am worried about several things. No. 1, what is the effect of this PIK program going to have on the soybean market and the soybean price?

Mr. **Ahalt**. Senator, I think it is going to be positive.

Senator **Heflin**. Well, I hope you are right. But there is some——.

Mr. **Ahalt**. Let us look at the evidence since the 1st of January. The price of new-crop corn has gone up from $2.74 to $2.87 a bushel. The price of new-crop soybeans has gone from $5.90 to $6.41 a bushel. That is a 10-percent increase in the futures price for new-crop soybeans.

If we get the kind of participation that we have estimated, and some people believe that maybe we have underestimated participation, soybean plantings will go down in 1983 because the soybean ground will be in the corn program in a very heavy way. We believe that the evidence that the market has been showing is reflecting these kinds of expectations, that we will get less soybeans planted in the year ahead.

Senator **Heflin**. Well, I hope you are right, but there is this real danger that, as they take out their production of other crops, and they have marginal lands—and this has been a history in the past in soybeans—they will grow the devil out of soybeans on other marginal lands and increase the plantings in order to do it, in order to get a cash crop. This is a real and present danger.

This also ties in to double cropping. This is an area which you do not provide for in the administrative PIK program but which was provided for in the Senate Agriculture Committee's bill which was not passed prior to the adjournment a few weeks ago. You get into a situation of where you are planting two crops on the same parcel of land. If the PIK payment is not attractive, if you do not have some equitable adjustment in such situations, it is possible that a lot of farmers in Alabama and the Southeast are going to participate in the PIK program.

Added to this is the fact of your wheat base. I realize that this is an area where legislative adjustment is required. For example, to give you some figures relative to Mississippi—I had somewhere the exact figures, but I can give you an approximation. In 1982 you were growing over a million acres of wheat in Mississippi. The year before, in 1981, it was around 600,000. In 1980 it was in the category of around 300,000 acres of wheat. Now, that big increase—and this is true in Kentucky, the Carolinas, all in various places which have now become wheat-growing States—they are not eligible for the PIK program insofar as their 1982 base is concerned. Therefore, unless some type of an adjustment is made—and I think we will have to do it through legislation to change that base so as to include 1982 acreage—it could well be that you are going to have a relocation of the growing of wheat in the Southern States and away from the Northern States, particularly because they cannot qualify for it, and second because there is no adjustment allowance made for the double cropping.

It can well be that, while a decrease in production could occur in the wheat in the Midwest, you could see a substantial increase in the growth of wheat in the Southern States. It is because of this that I think you need legislation to give you base as of or through 1982 in order to permit them to qualify on a fair basis.

Mr. AHALT. Senator, I think we would have a serious problem with what you are proposing. I know the concern you have, but those producers did have the opportunity to come into these programs. These programs are all voluntary. Producers in the past, in the States that you cite, had the same opportunities to come into the program that producers did in the other States in the country. They chose not to do so.

To change the legislation to now bring them in would, I believe, not be equitable. You would be, under that kind of situation, giving them an opportunity to come into a program that other producers did not receive.

Senator HEFLIN. There is a real danger that perhaps 50 percent of the wheat land, 40 to 50 percent of the wheat land, maybe 35 to 40 percent of the wheat land is not going to be eligible in certain geographical areas of the State of Alabama. If they are not going to be eligible to participate on the basis of their 1982 base and if they think that the price of wheat is going up as a result of the PIK program, you may well have a great number of people who are going to increase their wheat production. Your program may be self-defeating unless you make some sort of an adjustment for that type of situation.

It appears to me that legislation is needed on several areas of the PIK program so as to make if fairer for farmers in the Southwest and, perhaps, elsewhere. You can do it on the double cropping to cut back production and to make them eligible through your administrative procedures. But you have got a real danger of increased wheat production in certain sections of the country as opposed to a decrease in other sections because the 1982 wheat base is not included in the program.

I just say that that is something you ought to be giving careful consideration to, and I hope the committee does when we work up our version of a PIK program.

I am going to quit after this question and then come back a little later on.

We have a farm credit crisis. We passed in the Senate—and it got changed in conference, but they established a discretionary farm credit place giving a deferral right to the Secretary of Agriculture, based upon three criteria that we passed. No. 1, the farmer may use standard farming practices. No. 2, the consequences that he was in was due to causes beyond his control. No. 3, he had a reasonable likelihood of making his payment after the deferral period.

It appears to me that there ought to be some consideration given to some interaction between the PIK program and the present farm crisis. Those that have already been announced that they are going to be foreclosed, if they want to get into the PIK program, or if they were to go into it, then there ought to be a reevaluation of the farm credit crisis relative to these matters. There ought to be some relationship between the criteria I have just mentioned and the PIK program. I think it has the potential, if it is worked together, of saving a great number of farmers from being foreclosed.

Mr. AHALT. Senator, we are hoping that this program will help turn around the problem out there in agriculture that you are citing. But I am not sure that for some reason that a producer is already being foreclosed on, we could expect this program to solve his problem due to some previous actions that he may or may not have taken on his own.

Senator HEFLIN. But I urge the Department of Agriculture in its study of the farm crisis problem to reevaluate on an individual basis those farmers that are in that crisis in view of participation in the PIK program. I, hopefully, see a method by which they can come out of it, by the interaction of the PIK program and the criteria that is now in the law for the Secretary of Agriculture to use in his discretion.

Mr. AHALT. Well, this matter is handled in another area in the Department, Senator. I am not sure that I fully understand, but I will pass on your concern.

Senator HEFLIN. I am delighted to know you will be a message passer.

Senator COCHRAN. Senator Melcher?

Senator MELCHER. Thank you, Mr. Chairman. Mr. Ahalt, are you volunteering for this testimony?

Mr. AHALT. Am I volunteering?

Senator MELCHER. It seems like a tremendous undertaking right at this time to attempt to answer all these questions which have not been answered by the Secretary, which have not been answered by the solicitor's office.

Mr. AHALT. Senator——

Senator MELCHER. They probably have not been answered by the budget office. They have not been answered by all sorts of people.

Mr. AHALT. Senator, we have been working hard to get this payment-in-kind program going. I have been one of those people involved in it. There have been lots of others working to try to get the program put together, get it announced. We are finding good support.

Senator MELCHER. The meritorious aspects of the proposal are based on, first of all, trying to stabilize farm income. Is that right?

Mr. AHALT. I think what we said, what we were trying to do, is to get supply into better balance with demand.

Senator MELCHER. Well then, the first meritorious aspect of it is to reduce surplus?

Mr. AHALT. That is correct.

Senator MELCHER. Or prevent the buildup of surplus?

Mr. AHALT. Well, to reduce production to pull down already existing stocks.

Senator MELCHER. You want to reduce production to reduce either present surplus or potential surplus. Is that not correct?

Mr. AHALT. We are going to work on both.

Senator MELCHER. That is a primary reason for the use of PIK at this time then.

Mr. AHALT. Because we need to do that if we are going to achieve stronger prices. That is the only way that——

Senator MELCHER. Then the second part is to improve farm income by stronger prices and to improve the overall economy of the United States.

Mr. AHALT. Better farm prices and incomes, that is correct. But we have not built——

Senator MELCHER. If I seem to be leading you, Mr. Ahalt, it is to lay a foundation for the meritorious goals of PIK.

The third point, and perhaps in some aspects the first point that was considered, the payment in kind itself to the farmers will be off-budget.

Mr. AHALT. The payment in kind itself will come out of already existing Government-supported stocks. However, we are already, Senator, in the 1983 program projecting that we will spend $18 billion for price support and related activities in the current fiscal year.

Senator MELCHER. Mr. Ahalt, we can get into that later. But I am trying to lay the basis of why PIK is before us at this time. I do not think that is out of line. The general question that is asked both by farmers and by constituents who are not farmers is what is all this about. I am trying to establish at this initial hearing on PIK the basis for the administration's viewpoint because I think that is where we start. PIK is not new.

Is it not true that as far as some people are concerned, perhaps David Stockman, the OMB, and a lot of the economic advisers of the President in light of the huge Federal deficits that we are facing, the payment in kind can be used to reduce outlays for this coming fiscal year, or this fiscal year and the coming fiscal year?

Mr. AHALT. It will have very minor impact on reducing outlays in the current fiscal year, Senator. We are estimating for the 2 years together that we will reduce outlays about $3.6 billion from what they would otherwise have been, but they are going to total $18 billion this year. The problem is——

Senator MELCHER. Mr. Ahalt, let us not confuse it. Let us just keep the outlays that you are talking about.

Mr. AHALT. The $18 billion?

Senator MELCHER. Yes.

Just to the program that is covered under PIK. When you say $18 billion, if you want to identify $18 billion in 1984's budget, I would like to have that in the programs that involve these four commodities.

Mr. AHALT. You would like to know how much goes for the various PIK commodities in fiscal 1984?

Senator MELCHER. Yes. Wheat, cotton, corn, and rice.

Mr. AHALT. For wheat it is $3.1 billion.

Senator MELCHER. In what year?

Mr. AHALT. Fiscal 1984.

Senator MELCHER. All right.

Mr. AHALT. Is that the year——

Senator MELCHER. You used the figure $18 billion. So, I am just asking you what year.

Mr. AHALT. Well, $18 billion is made up of $3.1 of outlays for wheat, $6 billion for feed grains——

Senator MELCHER. What feed grains are you covering under PIK?

Mr. AHALT. Corn——

Senator MELCHER. And sorghum?

Mr. AHALT. Sorghum——

Senator MELCHER. So the $6 billion is for corn and sorghum?

Mr. AHALT. And barley.

Senator MELCHER. Oh, you are not covering barley, though?

Mr. AHALT. I am giving you the total outlays for fiscal 1983.

Senator MELCHER. Are you going down 1983 or 1984?

Mr. AHALT. I am giving you fiscal 1983.

Senator MELCHER. Well, that is this year.

Mr. AHALT. That is this year.

Senator MELCHER. Did I misunderstand you? Did you not say before that you are referring to 1984 outlays?

Mr. AHALT. I can give you either year you would like, Senator. I added the two together and said the payment-in-kind program would save us about $3.6 to $3.7 billion over and above what we would spend under the price support programs.

Senator MELCHER. All right. I would just as soon use 1983.

Mr. AHALT. All right.

Senator MELCHER. So, your $18 billion figure refers to 1983?

Mr. AHALT. Yes, sir.

Senator MELCHER. And the outlays are going to be three point something for wheat and six point something for feed grains. Is that correct? Only, it included barley. So, not all that refers to PIK-covered crops.

Mr. AHALT. But we have more than just a payment-in-kind program operating.

Senator MELCHER. I understand that. We are just talking about PIK so far today. Go ahead for cotton.

Mr. AHALT. Cotton was $1.6. Rice is about $700 million. For those four commodity groupings you get a total of $11.3 billion.

Senator MELCHER. Less whatever there is in there for barley or other feed grains.

Mr. AHALT. And you have another total, other commodities including dairy, which bring you up to about $7 billion. When you add those together, you come to $18.3 billion.

Senator MELCHER. We are out of what we are talking about with PIK when we get into barley other feed grains that might not be covered and dairy. So, let us just return to PIK.

For 1984 what do you anticipate the outlays will be in these four commodities or four commodities plus grain sorghum?

Mr. AHALT. It is $3.1 on feed grains, $2.2 on wheat, $1.1 on cotton, and——

Senator MELCHER. So, what is the difference?

Mr. AHALT. It gives you a total of about $6.9 billion.

Senator MELCHER. All right. Now, for some people in the administration and perhaps for all of us, it is going to look good to have this off-budget and the appearance of reduction. What you are telling us, without PIK that $6.9 billion or whatever figure it was, almost $7 billion would be in the 1984 budget request.

Mr. AHALT. That $6.9 billion, Senator, if we had not had the payment-in-kind program, would have been about $10 billion, a $3 billion difference for fiscal year 1984.

Senator MELCHER. Well, we added it up before for 1983.

Mr. AHALT. That is correct.

Senator MELCHER. And you came up to about $11 billion. And then you are backing it down to $6.9 billion, so that seems to me to be more than three point something. It seems to me that we are letting something fall between the cracks here. What is it?

Mr. AHALT. You are comparing the fiscal 1983 with 1984.

Senator MELCHER. Yes.

Mr. AHALT. The $3 billion saving is if we had run the 1983 program in 1984 and not had the payment-in-kind program. That is the $3 billion saving in fiscal year 1984.

Senator MELCHER. I am not going to belabor it here.

Are you including in your estimates your recommendations that you just submitted to this subcommittee for legislation on the reduction of target prices and reduction in the loan rate?

Mr. AHALT. Yes, we are.

Senator MELCHER. You are submitting budgets where there are several areas where the figures that are there are based as if Congress passes some legislation.

Mr. AHALT. That is correct.

Senator MELCHER. To reduce it.

Mr. AHALT. That is correct.

Senator MELCHER. OK, that is fair enough as long as we drag it right out here in the front so we know what we are talking about. But, if Congress does not change that legislation, then you would probably be talking about a reduction of PIK. PIK would bring about a reduction in what would otherwise be 1984 outlays of about $6 billion.

Mr. AHALT. Well, the payment-in-kind program this year, Senator, fiscal 1983, is only going to save us——

Senator MELCHER. Why do you go around not answering my question, Mr. Ahalt? Why go around in circles on it? If Congress does not agree to reduce the target prices and reduce the loan rate, you are talking about PIK possibly saving about $6 billion in cash outlays for fiscal 1984.

Mr. AHALT. I am sure I have that number here. I will get it.

Senator, the main difference on freezing the target prices at the 1983 level, the main saving is in the outyears, not fiscal 1984. Really, what we are talking——

Senator MELCHER. All right, then we are talking about something for 1985.

Mr. AHALT. But for fiscal 1984 the payment-in-kind program itself, isolated from all these other things, freezing the target prices, it would be about $2.7 billion in fiscal 1984. That is how much the payment-in-kind program saves us.

Senator **Melcher**. All right. Then we are really talking about the larger figure showing up in fiscal 1985?

Mr. **Ahalt**. In the outyears, Senator.

Senator **Melcher**. All right, 1985 is as far as I want to look ahead in your budget at this time, Mr. Ahalt.

I am not trying to have confrontation here. I want to lay out what the merits of the proposal are.

Mr. **Ahalt**. Fine.

Senator **Melcher**. The fact that PIK, payment in kind, would be off budget is not one of the merits as far as the budget keepers are concerned.

Mr. **Ahalt**. Well, Senator, the commodities that are made available to farmers only have value in future years if prices rise above the support level so that the Government can dispose of them. Otherwise, we have taken over commodities and have these large commitments to make storage and interest payments which go on and on. By making them available to farmers, we accomplish several goals.

Senator **Melcher**. I understand. We have gone over that several times during the past 2 months, and you have made the case again today. We do not need to belabor that.

Reduction of surpluses is an old story. Henry Wallace went through a rather traumatic decision in recommending in the thirties to kill the baby pigs and the lambs and the calves and get rid of some cows and sheep and hogs in the same way. It was very traumatic and had similar provisions for getting rid of grain surpluses.

All of these things are very traumatic and for many people are not well understood or well accepted. But it is not new to this country. You can go back 50 years to the days of Henry Wallace. Rather abrupt, traumatic changes were made to reduce surpluses.

PIK was used in 1961 by the Department of Agriculture, was it not?

Mr. **Ahalt**. I believe that is correct.

Senator **Melcher**. In reviewing a little bit ahead, the Grange witness will tell us about an article prepared at Iowa State University in 1961 that points out the same things we are talking about today except for the tax aspect. I do not find that in here, but that had to be faced then, too. IRS was collecting income taxes in 1961, just as it is going to be collecting in 1983, 1984, and 1985, all the years that are involved with this. So, value is going to have to be established on this payment-in-kind grain. Those answers should be available rather shortly, or at least I hope they are, because there are questions that have to be answered if payment in kind is going to be used by individual producers.

You very clearly stated at the outset that you do not want any legislation such as the Huddleston-Cochran bill, or any similar bill that deals with any authority that you now have with PIK to alter it because it would alter the program that is presented to the farmers over the past month. Yet, you tell us that the administration will want legislation on the loan rate, want legislation on the deficiency payment.

Mr. **Ahalt**. On target prices, Senator.

Senator **Melcher**. Not on the loan rate?

Mr. AHALT. No, sir.

Senator MELCHER. Fine. So, we narrowed it down to just target prices, the deficiency payment.

Mr. AHALT. Yes, sir.

Senator MELCHER. At this time can you give us—I do not think you can, but I will ask it anyway—your projection, the Department's projection on what this does for farm income for the 1983 crop?

Mr. AHALT. What the payment-in-kind program does?

Senator MELCHER. Yes.

Mr. AHALT. Our estimate for 1983 is that net farm income will total somewhere in a range of $17 to $21 billion.

Senator MELCHER. Does this include PIK or not?

Mr. AHALT. This includes the payment-in-kind program.

Senator MELCHER. How do you figure the income for farmers from the PIK program, from that aspect of the agricultural program, to get their net income—and that is what you are giving us, the net income——

Mr. AHALT. Yes.

Senator MELCHER. How do you do that unless you have established a value for PIK?

Mr. AHALT. Senator, we work through the commodity supply use balances for all of these commodities. We have discovered that——

Senator MELCHER. You have a dollar value then?

Mr. AHALT. Pardon?

Senator MELCHER. You have a dollar value then?

Mr. AHALT. Well, the 17 to 21 is in billions of dollars.

Senator MELCHER. Yes, in dollars. So, you have established a value for PIK as it relates to net farm income.

Mr. AHALT. We have to go through and estimate market prices for all of the commodities that make up——

Senator MELCHER. Including the PIK grain.

Mr. AHALT. Including the PIK grain.

Senator MELCHER. All right. Now, why is not that good enough for IRS? Why are we fencing around and saying we do not know how this affects taxes?

Mr. AHALT. Senator, I am not fencing around on how this affects taxes. That is a determination that IRS has to make. What I have been trying to tell the committee is that we have had our top attorneys visiting with IRS on the program so that we can get this problem resolved.

Senator MELCHER. All right.

Mr. AHALT. What I have tried to——

Senator MELCHER. You have established a dollar value. What is wheat worth?

Mr. AHALT. What I have tried to do is assure Senators that we will get the tax problem resolved.

Senator MELCHER. All right. You have to assure farmers first, I think, because they are the ones who are going to have to sign on.

You must have a dollar value in there for a bushel of wheat then.

Mr. AHALT. We do.

Senator MELCHER. What is it?

Mr. AHALT. We do. For the current fiscal year, it is about $3.60 a bushel.

Senator MELCHER. All right. And then, when a farmer gets a bushel of PIK wheat, he gets $3.60?

Mr. AHALT. He may or may not, Senator. That $3.60 is a national average price. It reflects the——

Senator MELCHER. I know it is a national average.

So, the average bushel of wheat to a farmer is $3.60?

Mr. AHALT. That is our estimate.

Senator MELCHER. Yes.

That should satisfy IRS then.

Mr. AHALT. It may or may not.

Senator MELCHER. All right. Let us take it on a big wheat operation, a 10,000-acre operation. You would like to have 5,000 acres taken out of production. That would be the combination of both PIK and the other land set aside prior to implementing PIK. So, that would be 5,000 acres, half the wheat operation. This particular wheat operation does not have the equivalent of whatever is required for PIK on the range. How are you going to give them the wheat?

Mr. AHALT. He will come into Mr. Rank's county ASCS office. He can determine the elevator nearest to him and, I believe, Bud, designate where he would like to receive his payment-in-kind grain.

Senator MELCHER. Several of these large wheat operations that I am referring to in Montana would be somewhere between the Yellowstone River and the Missouri River. Perhaps the closest point would be a couple of hundred miles away. Now, what are the mechanics of this? Is he to go up there with trucks and bring back wheat to the ranch or to his operation?

Mr. AHALT. I do not know whether he would want to haul it back to his ranch.

Senator MELCHER. Let us assume he does not want to because it is very inefficient. So, what is going to happen to that wheat then?

Mr. AHALT. He has several options open to him.

Senator MELCHER. He could leave it, he could sell it?

Mr. AHALT. That is correct.

Senator MELCHER. At Wolf Point?

Mr. AHALT. That is correct.

Senator MELCHER. He would likely sell it at Wolf Point.

Is he given a negotible instrument? What is the document?

Mr. AHALT. He gets a warehouse receipt.

Senator MELCHER. All right, fine.

That has been the consistent view of how it probably would have to work in many instances. The Department has viewed this as probably the likely way the PIK would work in many instances.

Mr. AHALT. Yes, we have tried to provide as much flexibility to producers as we can, Senator.

Senator MELCHER. Is it not likely that there will be quite a bit of wheat put on the market at one time just due to the mechanics of the program?

Mr. AHALT. We have tried to deal with that problem by staggering the payment in kind based on harvesting dates across the country.

Senator **MELCHER**. Are you going to give him his warehouse receipt at a staggered time? I think that is the key point.

Mr. **AHALT**. He would get his warehouse receipt based on what we estimate his normal harvesting time to be.

Senator **MELCHER**. Yes, well, that is August. So, all those that are in the wheat aspect of PIK in Montana will get it in August then?

Mr. **AHALT**. I would have to look on my——

Mr. **RANK**. Senator, the availability date is August 1, he will be notified where his PIK commodity is and at what warehouse. He will have 5 months from that date to go to that warehouse and make arrangements either to take it home or to turn it into a warehouse receipt or sell it.

Senator **MELCHER**. Yes, but it will all come to each operator in Montana then——

Mr. **RANK**. Same date.

Senator **MELCHER** [continuing]. If August has been determined by the Department to be the normal harvesting, it will be the 1st of August. All right. That is pretty much the way the Department has always envisioned it.

So, to the extent that the wheat becomes available to Texas in June and in Oklahoma in July and Kansas in July and Montana and the Dakotas in August, we have got about 4 months of impact on the market?

Mr. **AHALT**. Well, I do not know that you necessarily want to look only at those 4 months. Producers who sign up in the program——

Senator **MELCHER**. Well, the first 4 months are the first 4 months of impact. It cannot be before June 1, can it?

Mr. **AHALT**. Well, the farmer can decide whether he wants to forward his crop, Senator.

Senator **MELCHER**. We are only talking about the impact that the negotiable instrument, the warehouse receipt, has on the market during those months. The first 3 months are June, July, and August. Is that correct? There will not be anything given out before June 1, will there?

Mr. **AHALT**. You are talking about wheat?

Senator **MELCHER**. Yes.

Mr. **AHALT**. June 1?

Senator **MELCHER**. June 1 and then July 1 and then August 1, et cetera.

Mr. **AHALT**. That is correct.

Senator **MELCHER**. Let us go on. We have got some market impact, some potential for market impact. We can all admit that. It is depressing the market during those months if there are a lot of PIK operators who take that warehouse receipt and cash it.

Mr. **AHALT**. Well, Senator, not all farmers are going to wait until they get that warehouse receipt before they decide what they want to do with that warehouse receipt. Some producers will take a position to forward sell the commodities that they are going to get in payment in kind. So, they may take that action shortly after they sign up.

Senator **MELCHER**. Well, we can all conjecture what might happen, but we are looking at the possibilities; and that is all we are trying to stress here. The possibilities are the warehouse receipts issued on June 1, July 1, and August 1 could have a definite impact of reducing the cash markets during those months.

Mr. AHALT. Senator, I still——

Senator MELCHER. I am like you. I hope it does not happen.

Mr. AHALT. That is why we have tried to put some safeguards in the program.

Senator MELCHER. The safeguards are of the nature of allowing additional storage. Whatever the costs of those additional storage months are, you have worked into the budget.

Mr. AHALT. We have.

Senator MELCHER. So, they are already in there.

To get to the other aspect of this that follows almost immediately, if 5,000 acres are taken out of this particular operation of 10,000 and there is no conservation practice required, does not that pose a problem?

Mr. AHALT. I am not sure that there is "no conservation" involved here.

Senator MELCHER. If there is, I would like to know what it is.

Mr. RANK. Senator, on the PIK portion of our reduced acreage, we are estimating that about 23 million acres will be taken out of production. On all the land taken out of production, through the PIK and the prior announced program, there will have to be some conservation uses applied to that land. It will vary by areas of the United States. In heavy rainfall areas, producers will be required to have a practice on the land to protect the soil from wind and water erosion. In desert-type areas, they will have to maintain the soil and cultivate it in a manner so there will not be dust and erosion.

Senator MELCHER. What specifically have you put into your proposed regulations, Mr. Rank, that will affect this wheat farmer I am describing?

Mr. RANK. We work with the Soil Conservation Service at the State level and county level. We have certain overall minimum criteria we are going to require. Then they can build their criteria within the State and county levels of what will be applied to conservation uses of those soils.

Senator MELCHER. Well, that is all futuristic, and I asked what is in the proposed regulations.

Mr. RANK. Small grains can be planted. This is, once again, up to the local States and counties as they know their soils and the types of problems they have, to make that determination. Small grains can be planted on this conservation use acreage, if that is a conservation benefit and will keep the wind and water from blowing and washing the soil away. They will have something mechanically done to them prior to going to the softdough stage so they cannot be harvested. But they can be applied to those lands.

Areas in the Midwest, the corn areas, and a lot of areas will be required to plant a cover. These lands will be maintained so they will not have erosion. The local people will make this determination.

Senator MELCHER. You are having people sign up right now if they want to, subject to the new regulations imposed. Are there regulations in effect that requires them to put a cover crop on?

Mr. **Rank**. Yes, sir. The PIK program is no change to what we required in the conservation use acreage in the previously announced program. So, the farmers are aware of what they are going to have to do to that land once they enter into the PIK program.

Senator **Melcher**. There is no requirement now to put a cover crop on.

Mr. **Rank**. Sir, there is a requirement to have conservation benefits applied to that land. That requirement is out there, yes, it is.

Senator **Melcher**. We have got summer fallow land. It would ordinarily be summer fallow. That is not a cover crop; is it?

Mr. **Rank**. There are certain ways that that land must be treated in order to keep the soil from blowing or whatever the problems are in those areas.

Senator **Melcher**. I am asking you what they are. If you have got the regulations in effect, Mr. Rank, I am asking you what they are.

Mr. **Rank**. We are asking the people at the local area to make that determination with some requirements that we say in order to keep them——

Senator **Melcher**. I am asking you what the requirements are of the local people.

Mr. **Rank**. In the summer fallow areas such as Montana, with stubble mulching and things like this, and the method they cultivate their land, is what we require them to have.

Senator **Melcher**. All right, they are going to summer fallow it then. So, a PIK farmer that has 10,000 acres, he is going to have 5,000 acres in summer fallow this year, plus whatever would be the normal summer fallow for the other 5,000 acres. Is that correct?

Mr. **Rank**. The land he——

Senator **Melcher**. The summer fallow will meet the requirement for conservation; will it not?

Mr. **Rank**. If it is treated in the proper manner; yes.

Senator **Melcher**. All right. And that is your regulation right now.

Mr. **Rank**. The land that is for the PIK portion must be land that was summer fallowed in 1982 for cropping in 1983.

Senator **Melcher**. The PIK portion must be from land that would be cropped in 1983. So, he puts his 5,000 acres of current summer fallow land into PIK. That is what you want.

Mr. **Rank**. We would not allow that.

Senator **Melcher**. You would not allow that.

Mr. **Rank**. No, sir.

Senator **Melcher**. Which of the 5,000 acres do you want? Half of it is in summer fallow right now. What 5,000 acres do you want?

Mr. **Rank**. The land for the PIK portion and conservation use for the 1983 crop program would be land that was summer fallowed in 1982 for the purpose of planting in 1983.

Senator **Melcher**. All right, but we are still going to get down to 5,000 acres of summer fallow land for this fall. When fall comes, you are going to have 5,000 in PIK acres under summer fallow. And he is also going to have the other half under summer fallow, too, or you are going to put it into summer fallow. So, we end up then with 7,500 acres under summer fallow.

There is nothing in your regulations that does not permit that, that does not expect that, that does not anticipate that. Are you going to change those regulations?

Mr. **Rank**. Sir, these regulations are in effect, and there are no changes. I could read part of the regulations which state: "The crop residue from the use of 'no till' or 'minimum till' practices, other cover or practices that will protect the acreage from wind and water erosion throughout the calendar year may be approved if such cover or practices are"—and it goes on and tells all the various practices that can be applied to that soil. With the main criteria that there be no wind or water erosion on the conservation use acreage.

Senator **Melcher**. Are you going to require a cover crop on the portion of the 7,500 acres?

Mr. **Rank**. No, sir. This is strictly up to State and local county offices to determine what type of practice should be applied to that land.

Senator **Melcher**. No cover crop is required then?

Mr. **Rank**. That is up to the State and county.

Senator **Melcher**. To get the PIK payment.

Mr. **Rank**. Once again, it depends on the areas of the State and county. Certainly in a desert area we could not make them plant a cover where they have no rainfall. It depends on the rainfall and type of practices in those areas.

Senator **Cochran**. Senator, I hate to cut you off, but we have used about 25 minutes of questioning by you of the witnesses and others. We have two panels following the administration officials. If we could move on to Senator Boren. Do you have another question or something at this point to follow on?

Senator **Melcher**. No. I will take my next turn around.

Senator **Cochran**. Senator Boren?

Senator **Boren**. Thank you very much, Mr. Chairman. I do have an opening statement that I will submit for the record.

Senator **Cochran**. Without objection, it will be inserted in the record.[5]

Senator **Boren**. Mr. Chairman, I would commend you for having these hearings and commend you for your leadership in attempting to get appropriate legislation during the lameduck session.

I do have some concerns. I am concerned about whether or not we should consider establishing a minimum price for the value of the PIK commodity, a minimum guaranteed price. I am concerned about whether or not the provision of 5 months' worth of storage payments is sufficient to insure orderly marketing.

I am also disturbed to see us moving in the direction of decreased reserve loan rates.

I would also just express a general concern that we are dealing here again, it appears, with only a stopgap program for a few months without presenting a multiyear program, which we all recognize is going to be necessary if we are going to get the matter in hand.

I just wonder—and I would address this to any member of the panel who would care to respond to it. We talked about getting supply more in line with demand. I wonder what quantity of supply we would consider to be in line with demand in terms of our basic commodities, wheat, cotton, feed grains, and rice. If we have set target levels for what would be an acceptable level of carryover stock, I wonder, if we have set those, what those levels would be. Is there a commitment by the administration then to offer programs that will ensure that we achieve these carryovers and move ahead in the following year if these levels are not achieved?

---

[5] See p. 65 for the prepared statement of Senator Boren.

Mr. **Ahalt**. Senator, that is a fair question. We have operated these programs over the years on a year-to-year basis. We have looked at the supply demand situation and made a determination, and then tried to put a program together. When we announced this program, we said that we did not believe that we could make all the adjustment in the 1983 year. More than likely, we will have to operate a program in 1984. Really, that is as much as we can provide at this time. We do not believe that we can get the corn carryover down as much as we would like to see it come down. We would like to see the corn carryover drop a billion bushels from what we expect it to be at the end of the current marketing year.

We would like to see wheat come down maybe half of that much.

It is unlikely we can get those kinds of adjustments in the current year. Our cotton carryover is way too high. We have too much rice. But we will have to see the extent that farmers come into the program this year. We will have to then see how the crops turn out, how good the weather is and how our demand turns out.

We hope we can make an early announcement for the 1984 crops.

We are with you all the way on the need to get the information out there to farmers as soon as we can.

Senator **Boren**. I think that is a problem. Every year, particularly for people in our part of the country, the programs are announced so late that it makes it very, very difficult for people to participate.

I think it would be very helpful if at least the Department could move ahead at this point and set forth perhaps the general principles: In other words, if carryover stocks are above certain levels, we do plan a carryover program, whether that program would be a combination of a PIK type of approach or paid diversion, or whatever it might happen to be. We could even get the principles announced now and then the details announced as rapidly as possible after we see the level of participation and the effects of this year's program.

I urge you to give that serious consideration because I hear that complaint more than any other, just again what amounts to not even a 1-year program, because it is always so late in being announced and no indication of what is coming next.

When we were talking about the PIK program during the lameduck session and earlier last fall, I mentioned that I would like to see a minimum price set on the PIK commodity in order to protect the farmer from bearing all the risks of the program. I am still concerned about that. With the tremendous cash needs that farmers have, with this huge debt overhanging us, I am very concerned that, even though you may be doing your best to try to ensure orderly marketing, there could be a period of time in which the people would attempt to market as much as possible from day one, you might say, and they will be pressed to do. Whereas, if you had some certain minimum value or floor under that, they could even use that as collateral at a bank or lending institution to continue their credit, not be pushed so quickly to translate that into cash.

We talked about trying to hold the price. I gather you think it will be rather stable over a year's period. We look at wheat, where we were to use the $3 benchmark. If you do not see the price falling below that level for the year's average, is there concern that at some particular point in time during the 12-month period that we might see a sharp decline, at least temporarily, or a break in the market price at least temporarily under this program?

Mr. AHALT. Senator, I know you are concerned about that issue. We have been, also. That is why we tried to put some safeguards into the program. Our feeling is, by looking at forward markets, that the markets out there are up in the future months. The distant futures, which give you an indication of the price that the new crops will bring, have been rising. They have risen since we announced this program. We believe that farmers that are going to come into the payment-in-kind program as well as producers who might decide otherwise are going to look at that futures market and use it to help them to remove some of the risk involved. I believe they can take advantage of the market and sell ahead.

It could very well be that that is where we really ought to concentrate our efforts. Perhaps we should encourage producers to develop a careful market strategy, as you know they have, Senator, in recent years. They have become much more attuned to these market developments.

Senator BOREN. So some would already be utilizing the futures in order to hedge the price and protect themselves. In a related matter, it appears that OMB is blocking the issuance of regulations—this has already been mentioned before I came in—the issuance of regulations in terms of rescheduling farm debt at the original rate of interest. We hope the voluntary program that the Farmers Home Administration, Farm Credit and others would be followed to reschedule debt and to set a case-by-case moratorium.

If those regulations are being held up by OMB, as I am told they are, and if we guess wrong—I earnestly hope that you are right—I honestly hope that this marketing mechanism will work.

Suppose you did have a very sharp break in the price of wheat and other commodities, a 75-cent drop; wheat plunged all the way to $2 for a short period of time, what would be the reaction? What could we do at that point if that indeed happened, if it caused credit pressures, people so pushed for credit? I am hearing more and more that the Comptroller is putting pressure on private banks to classify loans that have never been classified before, and a real crunch as far as cash is concerned. If we did happen to get a downturn for a period of weeks, what could we do then? In other words, what could we do at that point?

Mr. AHALT. Well, Senator, if that were to happen, I would, first of all, feel like I had not done my job in convincing farmers right now to be looking at the futures market to take advantage and forward sell, because, under that circumstance, they would have missed an opportunity to sell ahead. And, you know, farms still have access to the market that come into the payment-in-kind program. The basic marketing tools that USDA provides are there.

I cannot foresee, you know, the kind of situation that you are describing happening. However, that is not to say that it cannot. But it is for that reason, the fact that some of these commodities have increased considerably in price over the past month, that I believe today that you will find farmers are taking advantage of this forward market.

Senator **Boren**. What would be the evil—I will submit the rest of mine after this one for the record—what would be the evil of putting some kind of minimal value—disrupt our efforts to draw down and overhang and storage, but what would be wrong with us putting, at least we talk about "safety nets" in other programs—what would be wrong with us putting a safety net of a reasonable minimal price under the PIK?

Mr. **Ahalt**. Senator, I believe that the kind of levels that you were talking about—I certainly hope that our commodities do not go to that level. I mean we certainly agree with you that that would be a disasterous situation. However, I still believe there is a potential "evil" that concerns me in that it might encourage farmers to ignore some kind of market strategy because the Government has come back in and put the safety net back up, therefore, there is the potential that it could be counterproductive.

Senator **Boren**. I would express the hope that we might have some second thoughts about that and consideration might be given, and I hope the committee will be looking at other elements that may require legislation, the export PIK and some others. I think it has great merit. I hope the committee will come back to this and urge the Department and the administration to really give this some serious thought because I think there is some grave concern along that line. Any reassurance that we can provide I think is important.

Thank you, Mr. Chairman. I will submit the rest of my questions for the record.

Senator **Cochran**. Thank you very much, Senator Boren.

I hope you will be able to respond in a timely manner to questions submitted in writing. Senator Pryor was here earlier but, because he had to return to the Finance Committee for an important meeting there, he asked me to put a statement for him in the record and submit some questions in writing that he prepared.[6]

Also, Senator Dixon, who was here at the beginning of the hearing, has a keen interest in this area of concern, and I have a statement which he asked be included in the record.[7]

I have additional questions which I will refrain from asking because we had a number of Senators here who had questions and wanted to participate in the hearing. I will submit those in writing and urge other Senators to submit any other questions they have of the administration representatives in writing.

We have two panels including people who have come from long distances to be here at the hearing this morning and they are scheduled to be heard. We want to hear from them. It is important to hear from people out in the country who are confronted with the problems of the real world and get their ideas about what should be done with respect to possible legislation and the administration of this PIK program.

---

[6] See p. 64 for the prepared statement of Senator Pryor.

[7] See p. 64 for the prepared statement of Senator Dixon.

If that is satisfactory with the other members of the subcommittee, I would urge that any further questions of the witnesses be submitted in writing.

Senator **Heflin**. I have one or two questions that I would like to ask.

Senator **Cochran**. Senator Heflin is recognized to ask two questions.

Senator **Heflin**. No. 1, the cotton program. You have differences in qualities of cotton. You have surpluses of certain types of cotton. You do not have surpluses of certain quality. Particularly, in Mississippi, Alabama, Kentucky, Tennessee, North Carolina, and in that area, there is not much of a surplus of cotton. Now, in the PIK program, supposed to give payment in kind, your surpluses are largely in low-grade types of cotton. Now, how are you going to operate this? How is this going to operate?

Mr. **Rank**. Senator, we recognize between areas that there is a difference of grade in that they raise. We divided the United States up into areas of different qualities that are raised in the different areas.

The first in that area, such as Alabama, raises a certain quality of cotton on an average basis. If they had to take their PIK portion from some area that raises a lesser quality they will be given extra pounds to bring them up to equal consideration of the average cotton raised in that area.

Senator **Heflin**. Well, this is not my second question. [Laughter.]

If you are going to give them a volume of cotton, which is almost going to have to be, it means that the market is going to be depressed.

Mr. **Rank**. No, sir, it will be equal grade as far as grade, it will bring them up to equal pounds so the value of that cotton received is equal to the value of cotton that would have been raised.

Senator **Heflin**. I hope what you say is correct. I have real questions about it, however.

What are you going to do in the event some taxpayer group comes along in the middle of September or July and endeavors to enjoin this program from the lack of legality unless we pass legislation? Do you have an alternate plan?

Mr. **Ahalt**. Senator, we feel that we have, and I am not an attorney, a sound legal basis to operate this program. That is why we have had to move ahead, because we did not get legislation last year, with what we have. We do not feel that we can accept any legislation that would make us change this program.

Senator **Heflin**. Well, I am not necessarily suggesting that you change the program. You said you could make some adjustments after it has gone forward. But you are looking toward 1984 also. And it appears to me that you are on very tenuous grounds. I know how lawyers react. They are told, "Find me a legal way". It does not always hold up in court.

Thus, I would suggest that in the absence of legislation, you start preparing an alternate plan. I think you ought to go ahead and encourage the legislation by this committee giving legal sanction to the PIK program. I think we can maybe do it in such a flexible manner as to make allowances for any needed adjustments in the program. It is almost going to be impossible to pass legislation before March 11 and March 18, but, from my review of it, looking at it from a legal background, you are on shaky grounds.

Senator **Cochran**. Senator Melcher, could you submit what you have in writing?

Senator **Melcher**. I have two very brief questions.

Senator **Cochran**. I will recognize the two questions.

Senator **Melcher**. The debate in the Solicitor's Office on whether or not PIK payments would be counted against payment limitations. I gather it has been decided within the Solicitor's Office and the Department of Agriculture in favor of the view that there are methods of using payments in kind that will not be counted against payment limitations. I believe that is a correct assessment.

Mr. **Ahalt**. That is correct. We believe that by operating a true payment in kind, Senator, we are able to avoid that problem.

Senator **Melcher**. Will you submit for this committee the brief, the winning brief in the sweepstakes within the Solicitor's Office that says it is legal so that we will be advised of the best thinking of those in the Solicitor's Office and the Department that they believe it is legal.

Mr. **Ahalt**. We will give you our legal thinking, Senator.

Senator **Melcher**. The same thing applies to the environmental impact statement, the environmental assessment. I take it the Department has determined that neither are necessary.

Mr. **Ahalt**. I am sorry, I——

Senator **Melcher**. I take it the Department of Agriculture has decided that this decision neither requires an environmental impact statement nor an environmental impact assessment.

Mr. **Ahalt**. We have an economic impact.

Senator **Melcher**. No, I mean under NEPA, the National Environmental Protection Act.

Mr. **Ahalt**. The 1983 PIK program determinations will have no impact on the quality of the human environment. Therefore, neither an environmental assessment nor an environmental statement is needed.

Senator **Melcher**. I would like to have the Solicitor's judgment on that also.

Thank you very much.

Senator **Cochran**. Thank you.

Our next group of witnesses will make up a panel of farm organizations. We will have Robert Fredericks, legislative director of The National Grange. David Senter, national director, American Agriculture Movement. Charles L. Frazier, Washington director, National Farmers Organization. Michael Durando, assistant director, National Affairs, American Farm Bureau Federation. Robert Mullins, legislative director, National Farmers Union. Dick Fifield, Alabama Farm Bureau Federation.

We appreciate the patience of this panel and the panel that will follow.

We have some statements that have been submitted to the committee by you and we appreciate having those in advance. They will be made part of the record in full. We would hope that any introductory statement you make individually can be made briefly because I am sure the Senators have questions they would like to ask you if we have time.

I want to thank each one of you for being here and we appreciate your cooperation with the committee last year when we were contemplating legislation. Your help at that stage of review was very important and we would like to have the benefit of your observations and thinking about the PIK program as it has been implemented and as it is being administered. Your assessment of the participation level in your areas and whatever suggestions you might have about action that may be needed by the Congress or by the administration to improve this program will be appreciated.

Let us start with Robert Frederick.

## STATEMENT OF ROBERT FREDERICK, LEGISLATIVE DIRECTOR, NATIONAL GRANGE

Mr. **Fredericks**. Thank you, Mr. Chairman.

I will be as brief as possible. [8] As noted, we testified back in 1982. We had a lot of questions and apprehensions about the program. Most, if not all, of our questions and reservations have been answered, and we now are in strong support of the PIK program as announced by the Department.

I did include or made reference in my statement to an article that appeared back in 1961, prepared by Arnold Paulsen and Earl O. Heady, of Iowa State University. I did this for three reasons: The first, to really point out that PIK is not new. Second, I think it makes a good case that stored inventory does not depress market prices. It is the free stocks that affect market prices, which leads us to a conclusion that the only way the PIK program is going to work relates to the amount of production we can buy out with a bushel of PIK. We hope this program will work.

The third reason is, if you are going to enhance prices it is not the reduction in stocks that are stored, but the amount of production we buy out with PIK payments. Hopefully, and its brought out in the paper, you can buy 10 bushels out for 1, that is great, we have to shorten the free stocks if we are going to enhance prices.

I also want to state that we continue to believe in and support the reserve program and hope that nothing is done to destroy the integrity of the reserve program.

We would oppose the freeze on the target price and reduction in loan in 1984, because these, again, are economic incentives to participate in farm programs, and the success of participation in farm programs is supply management brought about through reduction in acreage.

We think that a reasonable target price and a reasonable loan rate are necessary to get that type of participation if we are to reduce acreage.

We would ask that legislation be passed to make sure that the PIK payments are not subject to the $50,000 limitation and that the resale price out of CCC, as far as PIK payments, also does not apply.

---

[8] See p. 105 for the prepared statement of Mr. Frederick.

We would ask that barley be included as a crop in a PIK program. We have been having a lot of requests from our Western growers asking that barley be included. The reasons the Department has given for not including barley are not substantial. There is perhaps not sufficient barley in the CCC or in reserve to implement a PIK program for barley, but they made the exception of wheat that if there is not enough wheat available they will give back the 1983 crop as the PIK payment. They can do likewise with barley.

That is a summary of our statement, Mr. Chairman. I will be glad to respond to any questions.

Senator COCHRAN. Thank you very much, Mr. Frederick. We will hear from all the members of the panel and then we will have an opportunity to ask questions.

David Senter.

## STATEMENT OF DAVID SENTER, NATIONAL DIRECTOR, AMERICAN AGRICULTURE MOVEMENT

Mr. SENTER. Thank you, Mr. Chairman.

We appreciate the opportunity to appear before this committee again. I just ask that my statement go into the record and I will make some brief remarks and comments about the PIK program. [9]

We are in support of the payment-in-kind program provided it is tied into a long-range solution and a farm program.

I was disappointed this morning to hear the testimony from the Department in that it appears that they are looking at the PIK program as a quick fix and short-term solution without the long-term planning that is necessary to make the program work for farmers.

We will oppose very strongly any lowering of target prices because what farmers need is a fair price for what they are producing so they can go back to servicing their debt load and stay on the farms. Any move to lower the safety net would do serious damage to the farming community.

We heard reference to rising commodity prices several times. I think if you will look back over previous years, during this time of the season we always have a rise in commodity prices. I think a lot of what is happening is seasonal rather than just reacting to the program.

On the tax problems, I would hope that less time would be spent trying to work out the tax problems with IRS because there was not any taxable agriculture income in 1982. And I would very much hope next year we are back before a committee trying to solve the tax problems of farmers instead of trying to keep them on the farm.

We feel that huge investments have been made by farmers for storage facilities. Farmers have put grain in a 3-year reserve with the understanding and under a binding contract with CCC that

---

[9] See p. 110 for the prepared statement of Mr. Senter.

that grain would remain in the reserve until maturity or until the price triggered it out.

We feel that for reserve grain to be removed without the price protection for farmers built in would be a serious breach of contract on the Government's part, because there would be no way left to pay for this additional storage and it would be a breach of that direct contract.

We feel there are two options in association with that. Loan rates could be increased to the target price level, which would remove all direct target payments we are now obligated for. This would floor the commodity markets. Loans would be a recoverable cost to the Government and then the reserve grain would move out with farmers having the price protection they were guaranteed under those reserve contracts.

We also feel that payment-in-kind commodities should be allowed reentry into the 9-month loan. Farmers have to have cash flow. And if that loan was available, it would effectively floor the market, going down to the short term give them cash flow to continue their operations and they could market in an orderly fashion over a period of months instead of being forced to dump all the payment-in-kind commodities on the markets early on in the program.

The only other alternative would be for Congress to establish a minimum price by law, very similar to the minimum wage, which would be a no cost program that would effectively floor the market at the prerelease levels, the target price or whatever Congress saw fit to, so that these reserve contracts would be honored and upheld by the Government.

We have concerns that the program is going to get too complicated. I have a 30-some-odd page, 130 questions about what you need to know about PIK. Farmers in the country are having a very difficult time understanding what is happening to them, and whether they can participate in the program. There are a lot of problems.

We would hope that it is kept as simple as possible because the bottom line is farmers have to participate in the program. We have to have supply management in this country in order to get a fair price, and if farmers do not participate, the whole program will be a futile act.

And with problems on the farm, with the foreclosure rates, the program has to work. We feel that a moratorium must be put in effect on farm debts. If this program draws down stock like it is intended and we have time for recovery, farmers will be able to start servicing those debts in the future. It would be a disservice to go ahead and continue forced liquidation and foreclosures in the short run while we are moving into a supply management program that we all know is necessary.

Thank you.

Senator Cochran. Thank you.

Charles Frazier, Washington director, National Farmers Organization.

## STATEMENT OF CHARLES FRAZIER, WASHINGTON DIRECTOR, NATIONAL FARMERS ORGANIZATION

Mr. **Frazier.** Mr. Chairman, we do appreciate the opportunity to appear before your committee this morning.

My statement will be in the record and I will comment very briefly on our thoughts as of today.[10]

We are just finishing a round of meetings at the local level out in the country. We are getting advice back from our leadership on questions they are encountering with farmers right now at the country level.

There are a number of questions still plaguing farmers as they visit county ASC offices. This reminds me to suggest to you that if you are going to move legislatively, and I think it might be wise to do so, and settle once and for all the $50,000 limitation question, and any questions of legality for this program, you should try to do so quickly so that the whole thing may be clearly available to farmers before they must go through the signup period.

Another point that I would like to make with you quickly is to remind you that about 75 percent of the corn and about 50 percent of the wheat out there in the country are still held at the farm level. As indicated by your questions of previous witnesses, we are very concerned about the market effect of this program, as PIK grain is released and comes into position for sale, feeding or other use.

We have little confidence that export markets are going to pick up in any substantial way. NFO has a program going with its members and a number of other interested farmers, started last summer, to spread the marketing of grain that might be released from the reserve program if and when prices reach reserve release levels. We are talking about forward cash contracts. Those are tentatively set up now and our people are going back to the members who have made a small deposit and indicated cooperation in this program; we are talking to those who are going into PIK to try to spread the marketing over the release period and thereafter, if necessary, in order to try to avoid a bad market break.

This prompts me to comment on the statements of Mr. Ahalt. Our friend is very capable and I appreciate his sincerity in trying to help get this program together in good shape, but there was continuing reference to the futures market. If I understood him correctly, he said he was going to advocate that farmers go out and sell in the futures market.

I can tell him something. I have been around farming for a long time and it has always been my observation that about 80 to 90 percent of all farmers who ever get involved in the futures market get burned.

What I have in mind is this: If you go on the futures market and still do not have the crop in the warehouse or in the bin, you are in a speculative position. And there is another thing that is very easily overlooked by people quoting prices on far forward futures contracts. They are rather blithely passing over the fact that those quotes represent a time period, interest charges, freight, handling in and out of warehouses and putting those commodities in position in terminals for delivery to satisfy such contracts. So, speaking of a dollar figure this morning on futures contracts is a far cry from really anticipating what the price may be for the farmer at the local level in the market period we are talking about.

---

[10] See p. 112 for the prepared statement of Mr. Frazier.

I do not think we should be fooled by relying upon that type of speculation for farmers because we have had about 3 years of low prices and we cannot stand very much more.

To close quickly, I would suggest, knowing that we must go through some period of discussion and compromise in the normal legislative process, and knowing that a number of bills have been introduced by members of this committee, that you move as rapidly as possible to examine three or four major issues.

Number one, I think loan rates should be increased because the benefits of this PIK program come on a long-term basis. It will do nothing for farmers in 1983.

I think you should take a look at protecting target prices currently contemplated in the law rather than to entertain any thoughts of reducing them. Some of these producers going into PIK will face costs that they probably cannot borrow by bank loans or stand otherwise, to install conservation practices on the land that is set aside.

We know we have an awful lot of grain in storage. The Department wants to get rid of it. They might consider offering some of this PIK grain to offset the costs of installing conservation practices on the set-aside land. That will help move a little more of it out of storage if that is their goal in operating this program.

In closing, I would urge you to think of this as a package, the PIK, the loan rates, target prices, and then, as quickly as you can, pick up this issue of stopping these bankruptcies and foreclosures that are hitting so hard out in the country. There is a good deal of confusion between the reports released by the Department and the factual information coming to us at membership meetings with farmers at the local level.

I think you should move more precisely to stop foreclosures by FmHA and PCA's and stop these word-of-mouth pressure jobs that are pushing so many people to the wall out there on the farms.

We will be glad to work more with you on that one anytime you care to do so.

Thank you.

Senator COCHRAN. Thank you very much, Mr. Frazier.

Michael Durando, assistant director of national affairs, American Farm Bureau Federation.

## STATEMENT OF MICHAEL DURANDO, ASSISTANT DIRECTOR, NATIONAL AFFAIRS, AMERICAN FARM BUREAU FEDERATION

Mr. DURANDO. Thank you, Mr. Chairman.

It is a pleasure to be here this morning with you. On December 9, 1982, the Farm Bureau did present testimony to this subcommittee concerning the proposed payment-in-kind program, and at that time expressed tentative support.

At this time, the Farm Bureau is pleased to say that we do support the current implementation of the payment-in-kind program by the administration, recognizing that there could be some other legislative and/or administrative changes that would improve its effectiveness and its scope of coverage.

We have included, Mr. Chairman, for the record, in addition to our written statement, a copy of an economic analysis, prepared by our economic research division, analyzing the impact of the payment-in-kind program on the basic commodities for the 1983 year and with emphasis on the base acreages enrolled and also on the possible impact, as we see it, on net farm income.[11]

In my statement, I have included our base acreage enrollments for wheat, corn, sorghum, cotton, and rice. Utilizing these projections, we estimate that stocks will be reduced substantially for all PIK commodities and 1983 prices for these commodities will remain basically unchanged.

We do not expect any major change in prices in 1983. However, the analysis also concludes that reduced cash outlays by farmers because of an overall 6-percent reduction in planted acres could or will result in net farm income increases of $2 to $2.5 billion in this crop year.

At the same time, a combination of reduced efficiency payments and storage costs could result in an overall Federal budget savings in the first year, by our estimation, of $1.19 or close to $1.2 billion.

Mr. Chairman, we just completed our annual meeting in Dallas, Tex., several weeks ago. It was a very successful meeting. I have included for the record a copy of our newly adopted policy, adopted by our voting delegates, relating to the PIK program and it makes several recommendations and expresses support for the program with several contingencies.

The policy reflects the feeling of our membership that the PIK program represents the best alternative short term, and I emphasize short term, solution to be implemented at this time in an attempt to reverse the trend of increasing carryover stocks of the basic commodities.

We have several recommendations at this time. First of all, an incentive program for foreign buyers who purchase commodities over and above the traditional amounts. As a matter of fact, provisions that were included in your original bill S. 3074 for an export PIK plan, we believe, would be a step in the right direction for such a program.

Second of all, we recommend that there be a prohibition on grazing acres taken out of production under the PIK program. And this reflects the concern of some of our livestock producers because there might be a negative impact because, particularly, of some of the wheat, diverted acres.

Prior to the implementation of the 1983 PIK program, there was concern expressed and still being expressed today over possible complications arising from two provisions of current agricultural statutes, the $50,000 payment limitation and the CCC minimum retail price policy.

At this time, it appears that the program is being administered successfully without changing the existing statutes. However, to insure continued success of the 1983 program, and to eliminate any uncertainty concerning the implementation of a PIK program for 1984, we recommend legislative action to specifically exempt the PIK program from payment limitation provisions and minimum resale price provisions under CCC on stocks.

---

[11] See p. 114 for the prepared statement of Mr. Durando and p. 115 for a reprint of the economic analysis.

To conclude, Mr. Chairman, and to make this brief, I believe it is extremely important to focus attention on the problems facing agriculture rather than their symptoms, suggesting, perhaps, that the increasing growth of stockpiles of commodities is a symptom of the problem.

The payment-in-kind program may be successful in reducing price-depressant stockpiles but only through major revision of existing price-support programs can the incentive for farmers to overproduce and insulation from market signals be terminated.

There has been mention here today, Mr. Chairman, of administration proposals on target prices and loan rates and the other groups have expressed some concern with any proposed changes. It is fair to say Farm Bureau is currently developing some proposed changes of our own which we think would begin a shift in farm program policies toward a more long-term solution than just a PIK program every year or so. We will be looking forward perhaps later in the year to again appear before this subcommittee to present some of our proposals at this time.

At this point I would like to conclude. I will be glad to respond to any questions.

Senator **COCHRAN**. Thank you very much, Mr. Durando. The material you identified will be included in the record and we appreciate having that.

Robert Mullins, legislative director, National Farmers Union.

## STATEMENT OF ROBERT MULLINS, LEGISLATIVE DIRECTOR, NATIONAL FARMERS UNION

Mr. **MULLINS**. Thank you, Mr. Chairman.

I have submitted a statement outlining our recommendations. In the interest of time, I will simply highlight them. I think you have all had a chance to review them.[12]

Shortly after Secretary Block announced his intentions last fall of implementing some sort of payment-in-kind program, the executive committee of the National Farmers Union stated that this organization could support a payment-in-kind program provided that there be certain safeguards included to prevent any further depression in agricultural prices. I have spelled these recommendations out in some detail. But, simply, first, we support a minimum price be established on commodities used in the payment-in-kind program.

Second, and probably most importantly, that the integrity of the farmer-owned reserve program be maintained.

We would oppose any freezing or lowering of the loan and target prices. In fact, we would suggest that in order to stabilize prices, a special 10-percent, compensatory loan rate on the commodities used in the payment-in-kind program be established.

---

[12] See p. 124 for the prepared statement of Mr. Mullins.

Third, that the rights of tenants and sharecroppers be assured, particularly if this program goes more than 1 year.

Fourth, there should be equity in the treatment of commodities included in the PIK program. Specifically, we would recommend that barley and soybeans be included and that the pay rate differential between the various commodities be equalized.

And, finally, that better provisions for orderly marketing be provided.

We would recommend that the period of time in which storage payments are made on these commodities be extended to at least 9 months, if not a full year.

Very briefly, Mr. Chairman, those are our views on the payment-in-kind program.

Senator COCHRAN. Thank you, Mr. Mullins. We appreciate having the benefit of your testimony.

Dick Fifield, Alabama Farm Bureau Federation.

## STATEMENT OF DICK FIFIELD, ALABAMA FARM BUREAU FEDERATION

Mr. FIFIELD. Thank you, Mr. Chairman.

I apologize for not having submitted a copy of my comments before you now, but I promise there will be one later.[13] We decided quite late to try and offer some testimony.

Senator COCHRAN. Thank you.

Mr. FIFIELD. In Alabama, farmers are generally in support of PIK, and they say that with reservations because they say it is only for those who are qualified. We have a large number of farmers that have been disqualified because of problems with their base and other reasons.

Mr. Chairman, we have developed a computer program in the research department of the Alabama Farm Bureau which enables a farmer to put his own numbers from his own operation into the computer and come out with some idea as to where he might break even in the PIK program. There are a lot of variables that we had to put in quite late, so today we have only processed approximately 150 programs. However, in those programs that we have processed, it appears that a 100-percent PIK with a bid someplace, depending on the crop and depending on conditions, someplace between 50 and the limit is the optimum solution for most of our producers.

I mention this primarily because we have some problems that will mitigate that situation badly in south Alabama. Simply stated, wheat which requires fertilization and herbicide treatment before—within the next 15 days, actually—will have to be fertilized if farmers are going to get those optimum yields. Each day that we do not fertilize and we do not have herbicidal treatment, we will lose yield. That has been estimated to be in the neighborhood of a bushel a day. So 30 days from this time, when the program is finally announced, we would have practically a zero crop. I think that has already been stated in the record.

The land we have to prepare for corn must be prepared in south Alabama now. Most of the corn is already certified in the ASCS office by the 15th of March, in most cases. So most of the farmers in south Alabama, probably up to the middle of the State, will not be able to participate in the program unless they—the optimum program—unless they take that step and go out and fertilize 50 percent which they will have in the contract program. This, of course, is an added cost.

---

[13] See p. 149 for the prepared statement of Mr. Fifield.

I want to summarize quite a bit on this, Mr. Chairman, so I will say also that quite a bit of the cotton that will be planted in south Alabama will require herbicide treatment and fertilization and land preparation prior. So all of these crops with the exception of soybeans will fit into that category.

I would like to get into the PIK entitlement dates just a moment and skip over the other material that I had on crops that would be impacted, problems in the southern part of the State.

The PIK entitlement dates are ridiculous across the bottom part of the United States. We begin to harvest corn in late June in south Alabama, and I know that is true in your State too, Mr. Chairman. And the harvest will continue all the way through to September 15 in north Alabama. I know that you cannot get it down to a matter of 15 days, but I think you can get it at least within a matter of 30 days and give us at least three zones across the State where we would be able to harvest our corn and enter our PIK entitlements at a proper harvest date rather than some assumed date that blankets almost the entire Southeast of the United States.

The next problem that I would like to mention is the availability of CCC storage in our area. Alabama has only 16 elevators that are certified by CCC to store grain. That is in the eight Southeastern States we have less than 3 percent of the storage. I think Mississippi is a little more fortunate than Alabama, Senator, but we are all in bad shape so far as that storage is concerned.

In on-farm storage, we have less than 5 percent of the total storage. So we are going to have an acute problem when it comes to receiving CCC stock. I hope there is some kind of adjustment that the Department can make to provide us with an opportunity to have equal access to the grain, because, as you know, the Department's regulations would require us to transport that grain from the nearest warehouse. And they state that we are supposed to be able to pick it up in our county or the county adjacent to us.

We have 67 counties in Alabama, Senator, and that does not divide out too well.

I would like just to address very briefly the freeze in the statute, in the 1982 Reconciliation Act, on wheat, corn, and sorghum and the problem that is creating for some of our farmers in Alabama. I do not think it is fair to say that these people opted out of the program, and I will give you a small illustration of what I am talking about later.

The majority of these people have increased their acreage base in Alabama as they have in most of the Southeastern States, to take advantage of double cropping. The technology is just really becoming established in our area. This is particularly true in minimum or low tillage attendant with the cropping practice.

In this practice, the farmers are putting not only the fertilization for their wheat underneath the crop but also the fertilizer for the next crop of soybeans. So when they go in there they are incurring a terribly high variable cost into that crop. And the assumption that we are making right now is these people have been increasing acres and fertilizing for 1983 and not qualifying for the program just out of choice is ridiculous. The majority of the people that we have in Alabama, the majority of the new acres which is about 20 percent this year in wheat have been planted to take advantage of this type of cropping, and it has in the past proved to give an additional cash flow to that farm and an economic advantage. They cannot pull that fertilizer out of the ground and not utilize it in 1983.

I had a call last night at the hotel when I was trying to prepare these remarks, and I apologize for their lack of continuity, but a young farmer from down in south Alabama, in Baldwin County, which sits right down in the gulf, called me and said he had been into an ASCS office trying to certify his crop and sign up for the PIK. He signed up his base in 1979 and 1980 and 1982. But somehow or another something fell through the cracks in 1981.

He claims he filed it and the county office says he did not file it, he did not certify his base. Now he is in a situation where he cannot—he has no way of getting into the PIK program except in 1980 which was half of the acreage he would have had had he had a certification in 1980 and 1981, because he has to divide by two.

The young man has gone back to the county office and has received no encouragement to get into the PIK program at the level he feels he should be in.

I think this is an indication that there is a lot of problems—there are a lot of problems in the county offices and the Department needs to—I would simply say we are trying to help these farmers all we can and I do sincerely believe that they are, but that when we have blitzes like this that as much attention can be paid to that as possibly can be made and that we find out that that young farmer can get into the program and qualify as he intended to qualify. It is impossible to file 3 years and miss a middle year.

I would like to say in closing, and, as I say, I have several other remarks that would have been redundant, I would like to say in closing that I feel that the Department and the committee is going the right route, and I also feel that we do not want to come down in September, Senator Heflin, with an injunction and find that all of this work has been of naught. And I think if there is some way that you could pass legislation which would not only take into consideration some of the things that we have been talking about, such as the base which I think will have to be legislated, would place a lot more emphasis on getting rid of these stocks in export through the export PIK's and other mechanisms of Public Law 480. We feel that we can have a successful program and maybe in 1984 we can get farmers back to a positive net farm income.

Thank you, Mr. Chairman.

Senator COCHRAN. Thank you, Mr. Fifield. We appreciate very much your participating in the hearing and your testimony.

I wonder if any of you have had any reaction from people who are in the input supply business in the farm areas about the impact on their economic situation. And, if so, what is it that the administration or Congress could do about that; specifically, about fertilizers and chemicals, equipment dealers in the areas that you represent?

Would any of you care to comment about that?

Mr. DURANDO. Mr. Chairman, at the Farm Bureau we have had a number of calls and we continue to work with the input industry, the equipment people, the fertilizer, et cetera. Our projection shows that we expect $2 to $2½ billion less cash outlay by farmers as a result of the PIK program and, certainly, this comes directly off of input suppliers.

We have had calls from them and we have worked with them. I am not sure what, if anything, the administration can do at this point. It is our belief, and we believe they are beginning to understand that this PIK action is a short-term action and in the long run they are going to be better off, improved net farm income, improved state of U.S. agriculture, and so for a year they may be able to hold on.

Senator COCHRAN. Have any of you done any analysis of what impact this program is going to have on our foreign competitors? Is this going to encourage increases in production in other areas of the world where people try to come in and maybe claim markets, claim market shares that might traditionally have been ours? Is there going to be any impact of that kind?

Mr. MULLINS. Mr. Chairman, we can see no intentions of substantial increases in the acreage, No. 1, because of the overall world supply situation at the moment. As I say, I have not seen any reports of any major increases and I doubt if there would be unless and until we get to a point where we do not have a sufficient reserve program in place in this country.

Senator COCHRAN. What about the continuing payment of storage costs? Would this help smooth the flow of supplies into the market and would it help enough to keep the market price from declining dramatically next fall?

Mr. FRAZIER. I spoke earlier about our own efforts along these lines. This is one thing on which we wish to compliment the Secretary in announcing this program. We think it will help spread the marketing equally and, of course, that will depend heavily on some compensation for storage; this is probably the strongest point going for this program as far as 1984 prices are concerned.

Senator COCHRAN. Mr. Huddleston?

Senator HUDDLESTON. Thank you, Mr. Chairman.

I have an appointment I have to attend right now. I want to thank this particular panel. I will have some questions. I am going to read the statements. It is particularly important that we hear what is actually happening out there on the farms in America and what his perception of the program is. I think that will determine whether it is successful or not.

We will consider carefully the statements that have been made today, and those submitted. We will be looking at them in the next few days.

Thank you very much.

Senator COCHRAN. Senator Heflin?

Senator HEFLIN. Dr. Fifield, if you would, briefly give us the disadvantages that the Southeastern farms run relative to planting seasons, cost of land preparation for wheat, nitrating the fields.

What sort of overall disadvantages do Southeastern farmers have relative to the deadline dates and the period that the farmer must make up his mind?

Mr. **Fifield**. I am afraid I skipped over a lot of those dates, Senator. Actually, right now farmers are preparing and in some cases nitrating their wheat fields. They will, as I said, be in the corn fields and have all of their herbicide, fertilizer and land preparation done and the crop planted by the 15th of March, which is prior to the announcement date, which will require that they make the assumption that they are not going to get their 100-percent bid. In the case of corn, those costs, it will be approximately two-thirds of their variable or operating costs. In the case of wheat, the added cost will be anywhere from $14 to $30, depending on whether they have to harvest the grain.

Senator **Heflin**. Why is it that in corn you have this problem? What is the reason that it is necessary that you have to put, in effect, two-thirds of your cost in between the first of February and the middle of March?

Mr. **Fifield**. Senator, in south Alabama, if you do not get the corn in the ground by the 15th of March, you get too high heat and a wrong weather pattern which does not provide optimum—our rains cut off in June and we do not have the right growing conditions to mature these crops. So, basically, we are saying if you are not in then, you are going to have very decreased crops. This is a relatively new practice in south Alabama. We used to have probably a 10- or 15-day difference in that, and we did not have the yields that we are now experiencing.

Senator **Heflin**. Let me ask you about cotton. In the type of cotton that is in the Southeast, you have basically a better quality, and as I understood it, there are no substantial surpluses in Southeastern grown cotton. What do the cotton farmers envision that if they took bales of cotton which were of less quality, where there are large surpluses, what do they foresee as the danger that could occur with this, a danger of depressed market in the types of cotton they get?

Mr. **Fifield**. I do not think it makes a whole heck of a lot of difference if you get a bale or two bales if the cotton is not selling, it is not going to do you much good.

Senator **Heflin**. If there is no market.

Mr. **Fifield**. If there is no market for you, there is no value.

Senator **Heflin**. If a cotton farmer gets 30 bales of cotton for 25 acres in Mississippi, but if the bales he gets are different in quality, from what he grows and there is no market for that cotton, he has got nothing. He has got zero instead of PIK.

Mr. **Fifield**. Maybe a little hope.

Senator **Heflin**. Because of that probably there may not be many people participating in the PIK program.

Mr. **Fifield**. I think that is going to be a large question in the minds of a lot of people. I know of a couple large cotton farmers just north of Montgomery that opted not to participate in the program for that and also the payment limitation problem.

Senator **Cochran**. Senator Melcher.

Senator **Melcher**. Thank you, Mr. Chairman.

We are indebted to you for making the obvious point that what we are really trying to do is achieve better farm income.

There are four obvious points to be made with regard to the PIK program, and overall this panel has touched on all four of them.

The authority to implement PIK was already within the Department when the push came last December for legislation to be implemented and passed by the Congress before the end of the year. It was the Department's feeling that it needed protection with a new bill, protection against payment limitation, and also how PIK could be used to handle the grain in farmer-owned reserves.

That has not changed simply because the Department of Agriculture chooses not to advocate that right now. Whatever those needs were in December, so it is today.

My first concern is on the farm income part of it. Unfortunately, I feel that the Department is not doing enough, on long-range, PIK payments or any combination thereof or anything else, to try to protect farm income this crop year or the 1984 crop year.

There are other mechanisms for doing so that may not be ideal, but that I feel would be better and more practical. However, the Department seems to be of the opinion that using either deficiency payments or loan rates for protection for the 1984 crop year for these commodities would be ineffective because of payment limitations.

We might as well be up front, payment limitation is a matter of law and set by Congress. It exists. If PIK payments are not going to be counted under payment limitations, then we might as well say so and that does require a bill, an act of Congress, to say that.

Second, I think it is very treacherous to propose this program and implement this program and not have you address the problem of treatment of PIK payments. You simply cannot ignore what the IRS says about it. It goes right to that point and that is why we are discussing it here this morning. Not so much on how, certainly, of improving farm income for the 1983-84 crops, but the discussion here today was more on the basis that there is a value established, and recognized by the Internal Revenue Service. It certainly must follow that it comes under the payment limitations statute.

Yet a brief prepared by the Secretary of the Department of Agriculture, seems to waive that part of the law.

Thirdly, is the question of conservation. It is very practical to address that right now too. There is not much conservation required through 1983, but, surely, we must look at what is going to happen in 1984. If we are going to pass the incentives for renewing cost sharing for conservation practices, I think we must do that this year.

If PIK is good, if payment in kind is good for getting people, individual operators, to have incentive to enter the program, it follows, in my judgment, it is also good to encourage them to come in on conservation practices with PIK being used as the incentive for doing so.

Mr. Frazier said in his testimony today that that also means a test of whether PIK will reduce surpluses, and surely it will, if it is used that way, and I see no reason not to use it that way. If we have to pass legislation to establish it, we should. If we do not have to pass legislation to establish it, let the Department set it in motion with all the provisions and all the practical applications that will be necessary by making announcement in the next several months that for the 1984 crop it will be part of the PIK program.

Now the fourth point goes to fair treatment for ordinary farmers, who are sometimes referred to as "young", and I am sure we all realize they are not so young, ordinary farmers who do not own any or only own a portion of the land they farm. And I do not believe that has been well thought out yet. The Department does have existing regulations that were used during the times of other set-aside programs, such as the soil bank, which have been used.

I make one final point. The costs that we are talking about is for outlays for this crop year and primarily for commodities, deficiency payments, and in loans.

For these agricultural programs the cost is somewhat different from other programs for which we seem to have money. It is interesting to me that in discussing the issue, we are talking about $11 to $12 billion. That happens to be the amount that we have appropriated for foreign aid programs this year. Perhaps PIK should be thought of also as the method to meet some of those expenses. I do not think that the level we spend on foreign aid and similar programs is necessary. Nevertheless, the administration has advocated it and a majority of both the House and Senate have approved this program, so I am in the minority on that. But if we are going to continue a program at such levels, and, indeed, the indications from the President's statements are they will receive $12 billion in the coming fiscal year, I would suggest that if PIK is good for payments to farmers in the United States then surplus commodities in lieu of dollars which we do not have for foreign aid programs ought to be much broader than Public Law 480.

We are going to have a request from the International Monetary Fund. I sort of envision $30 billion, and I suppose about 30 percent of that would be an obligation of the United States. So we are going to be faced with that kind of request this year for such an infusion, probably phased in over more than 1 year. That is a pretty big project. We are talking about $8 or $9 billion that we are going to have to fund with participation of 30 percent in the International Monetary Fund.

We have programs other than foreign aid, whether it is military security or economic aid.

We have the surplus. Let the countries who want to participate in the foreign aid programs substitute part of the U.S. taxpayer dollars by surplus commodities. Then the entire picture will look a lot better. I am sure we have more surpluses in agricultural products than dollars available for these programs. It will solve the budgetary problem and the reduction of surplus commodities, at the same time PIK solves it for the agricultural program.

I want to thank all of you for your suggestions. I hope you will continue to review this program as it is implemented.

We do have to face reality. I personally hope, Mr. Chairman, they will continue to cooperate with us on that basis.

Senator **Cochran**. Thank you, Senator.

Thank you all for being here and for your help. We appreciate it.

Our final panel is composed of Don Loeslie, president, National Association of Wheat Growers; Drew Stabler and Kenny Seeger, representing the National Corn Growers Association; Ralph S. Newman, Jr., president, Rice Millers' Association, accompanied by Stephen Gabbert, executive vice president. I would like to have Neil Sampson join this panel, he is executive vice president, National Association of Conservation Districts.

We have statements which you have submitted to the committee, which we thank you for. We will make those statements part of the record in full. You are accustomed to this with this subcommittee, in your experience in dealing with it.

I am going to ask questions before I ask for any formal comments from the witnesses. We are trying to identify problems that you think may be solved with legislation or changes by the administration in the implementation of the program.

Some general overviews and impressions of the farmers support for the program would be helpful to the committee at this point in trying to determine whether or not we move forward with legislation.

Any suggestions that you have about this effort to try to help improve the opportunity for farmers to operate their farms at a profit would be helpful. There has been some question this morning about the inclusion of soybeans in the program.

Mr. Weems, you were here and probably heard my questions of the administration witnesses about soybeans not being included.

I would like to have your reaction if you can provide the subcommittee with whether or not soybeans should be included and, if not, why not. If you will help us make a record on that.

Mr. WEEMS. Thank you, Senator. Do you want me to comment now?

Senator COCHRAN. Yes.[14]

## STATEMENT OF RALPH WEEMS, FIRST VICE PRESIDENT, AMERICAN SOYBEAN ASSOCIATION

Mr. WEEMS. I appreciate that.

We feel like soybeans definitely should not be included in the PIK program because, No. 1, soybeans are not in significant oversupply.

No. 2, we do not feel that the Government has enough soybeans in Government-owned stocks to offer a PIK that would reduce the acreage more than 1 percent. Such a small acreage reduction would not help our problem at all. Rather than reducing our production with a PIK, we support your efforts on a payment-in-kind export program and look very friendly to that.

Senator COCHRAN. There have been a number of soybean farmers who have complained that soybeans are being ignored. Is it your judgment that this program and the basic provisions of the farm bill which was enacted in 1981 are going to be sufficient so we will be seeing increases in prices to farmers and they will be in better shape in the future?

---

[14] See p. 134 for the prepared statement of Mr. Weems.

Mr. **Weems**. Yes, Senator, we do feel that way, and we can already see some definite pluses coming out of this program. We think we are going to see a 2 to 3 million acre reduction in soybean plantings and a improved position for soybean growers.

We also find that when farmers are explained the program in detail and why we are not in it, they accept that and are very pleased with it.

Senator **Cochran**. The wheat growers here I am sure are aware of statements that were made by Mr. Fifield, Alabama Farm Bureau Federation, about wheat farmers in the Southeastern part of the country.

What is your reaction to the problems identified about some farmers not having a base, not being qualified or eligible to participate? What do we tell those farmers. Will they be better off with this program than without it?

## STATEMENT OF DON LOESLIE, PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS

Mr. **Loeslie**. Mr. Chairman, I think the argument or the question you brought up is certainly a concern.[15]

For 1983, the winter wheat has been planted. Production does seem to be moving along somewhat in that direction. Some concerns that were expressed were also expressed in the spring wheat area. People do have chemicals and fertilizers in the ground and just have the remaining part of going through and getting the seed in the ground.

Now, our basic contention is that conditions in 1984 will be moving people to participate in the 1984 PIK program and other programs will be necessary if we are going to see price adjustment reflected.

Senator **Cochran**. These farmers are going to be looking for higher prices as a result of this program. Is it your assessment that the PIK program is going to lead to higher prices in the future for farmers all over the country, not just in the Midwest, but in the South as well?

Mr. **Loeslie**. When we look at farm income, it has been down for the last 3 years, and it is on its way, apparently, for the fourth year. In other words, a smaller check for all farmers. I would think that that would be the basic consideration for all farmers because they look forward to a new year with a hope in something they can get their teeth into, that market prices are going to be improved.

Senator **Cochran**. What was the reaction of your association to the wheat flour sale to Egypt. Is this something that has been applauded by your association?

Mr. **Loeslie**. Yes; I think it was very well stated that we as organizations do not cherish trade wars, but nonetheless, we have been forced to compete for trade in an unfavorable position for a long time. We think this is a step in the right direction and we would hope that other programs would be made available that would also send the same significant warning to competing countries that we do intend to stay in business and that we could implement some of the things along export PIK.

---

[15] See p. 127 for the prepared statement of Mr. Loeslie.

Senator COCHRAN. I notice in your statement that you oppose a freeze on target prices, which the administration suggests is necessary. Why do you oppose that? What do you see as the impact of that on the wheat growers?

Mr. LOESLIE. We believe that target prices in the present program provide needed incentive for participation acreage cutbacks which decrease the amount of supplies that will be grown. We also feel very strongly that the price relationship problem that we addressed earlier, and also we think that this goes far beyond the farmers themselves, beyond the farm gate, to Main Street and all these industrial centers suffering from unemployment. We think it is directly related to nonprofit, nonproductivity in the agriculture sector and, therefore, we are strongly opposed to putting less money in the hands of producers because of their role in the economic recovery of this country.

Senator COCHRAN. What assessment do you have about the level of participation in the PIK program among your members?

Mr. LOESLIE. It is a little difficult to determine at this particular time. You would go from people who would have no way of raising enough money to put in enough crop, who have had very severe weather. Those people are 100 percent in and going to the maximum. You go to the other end of the range and those people who have crops that are now in the ground, up and growing very nicely, probably as good as they could expect, it is a very late date and it has been earlier addressed, it is going to be very unlikely that we can expect any cooperation or participation, rather, with those particular farmers.

I would guess that if you are looking for an overall number that the ball is still in the court and it has not fallen yet, because if we were to see a winter freeze, which is possible in some vulnerable areas of the country, it would make a significant difference. But the lateness of the announcement is a big factor which brings us back to why we think it is very necessary to have an early 1984 program announced, if not the particulars, at least the intent of it, so that we can have participation from all corners of the land.

Senator COCHRAN. The administration officials said, that by summer they will have some idea about the need for a PIK program for the next crop year. Would you encourage them to make that announcement as soon as they know? What date would be an appropriate date by which they should make their decision on wheat?

Mr. LOESLIE. I would like them to announce now that they are going to have the program.

I think that each day that goes by they lose a little bit. I certainly admire their intentions to make an early announcement and give them credit for that intent. But I do emphasize that it is of critical importance that we have run late, far behind in these announcements for some reason or another over the past few years. And it is just very, very important that we have an early announcement, the earliest, the best.

Senator COCHRAN. What about the participation of the rice industry? Do you foresee, Ralph, there are going to be a lot of rice growers participating in the PIK program? Do you have that information available?

## STATEMENT OF RALPH S. NEWMAN, JR., PRESIDENT, RICE MILLERS' ASSOCIATION

Mr. **Newman**. Yes, Senator.[16] Coincidental with these hearings, we happen to be having a rice industry meeting in Washington. We have representatives present from all of our production areas. It is our estimation, that with probably only one or two small exceptions, almost every county and parish in the rice-producing areas will fully subscribe to the maximum amount of PIK that will be available.

Most of that, incidentally, will come out not on the whole farm bids, but just by growers electing the full 30 percent.

Senator **Cochran**. There had been some discussion, as I recall, when we had our initial hearing last year on legislation about the difference in quality and types of rice around the country. There was some concern that farmers in Arkansas, Mississippi, and Louisiana might not have access to the surplus rice that was of the same kind of rice that they would normally produce.

Has this problem been satisfactorily addressed by the administration in the testimony today, or do you think some further clarification or adjustment needs to be made?

Mr. **Newman**. Well, from the perspective of growers, I think the administration believes, that it has done with the inventories it now owns and anticipates that it might potentially obtain, what they can do. In terms of substituting classes, the way we refer to different types of grain, they plan to substitute those classes that are in surplus for those that are not. They will do this by tendering quantities based upon the 1983 loan factor.

I think the problem that bothers a lot of producers, however, is that of the physical location. USDA has, as I understand, with respect to rice and cotton, chosen to tender these commodities in place, without any allowances for transportation to the producers' county or adjacent county. I think the third option, used with other commodities, is in line to a subterminal or terminal market. USDA has simply taken the position in rice that rice as is would be tendered. It may well be tendered hundreds of miles away from the producer's location. And their answer to that, is that the fact is known to the producer at the time he enters into the contract and, therefore, there has been full disclosure. And the producer has decided to accept that.

As a result, some producer, simply by circumstance, will happen to be physically located in an area where this grain is and others who have actually done a better job of having merchandised their crop, will now really be penalized by having to receive grain at a considerable distance from where they happen to be farming.

The administration is unwilling to make any concessions with respect to any transportation differentials at this point.

Senator **Cochran**. I am going to ask Mr. Stabler about your reaction to the administration's suggestion that there ought to be a freeze in target prices and a reduction of 10 cents on the loan rate for wheat and feed grains for next year? What is your reaction to that?

---

[16] See p. 140 for the prepared statement of Mr. Newman.

## STATEMENT OF DREW STABLER, TREASURER, NATIONAL CORN GROWERS ASSOCIATION, ACCOMPANIED BY VERYL BAILEY

Mr. **Stabler**. Our reaction is relatively neutral at this time.[17] Our position is the loan should be at approximately 75 percent of cost of production, and the target should be a percentage above that. So, actually, we have not taken a firm position on what we consider a relatively minor adjustment that the administration is taking.

Senator **Cochran**. Are the corn farmers, feed grain farmers participating in the program? Do you see that there is going to be widespread——

Mr. **Stabler**. We are currently in a backlash situation right now. We had very good signup earlier on. But a few days after the signup started, the ASCS offices were rushed. Right now we are in a real lull. I visited with Jim Johnson, our deputy ASCS executive and said, "What is the problem here?" He said, "We have got two big problems in Iowa, anyway, and one is that the technology has outstripped our bureaucratic means to adjust evils." We are having farmers come in here with honest yields that their livestock people owe so they cannot justify these to the ASCS, to upgrade their ASCS yields, so the 10-10 or no program at all is coming out more profitable to these people.

The other problem that we are having out here is the Internal Revenue Service situation, which is really a big question, out in the Corn Belt anyway. And I will just personally tell you what the situation is. If you are a cash basis farmer and you took a loan out on the corn, a Government loan, you would pay tax immediately. So you pay tax once.

If the Internal Revenue Service goes ahead and says that on October 15, or whatever your release date is, the date they come up with some magical value for it, and force you to pay taxes on it then, you will pay taxes on it the second time.

If you are a livestock person, and you do not sell that grain to anyone, you will feed that livestock out of the grain and, in effect, you will pay tax on that grain the third time.

Now, I think it is a very serious problem, one that must be worked out and an answer must be developed to resolve it if we are going to get the participation that it is going to take.

It is almost to the point where we sometimes wonder out there if IRS has a vendetta against the cash accounting system.

Another one that is a minor one that is creeping in is the inheritance tax law of 1977 which came in and provides for a special valuation situation if you continue to farm that ground. The situation is that if Internal Revenue Service considers the PIK as a cash rent, then all of those farms that are under the inheritance provision will be thrown out and have to be completely reviewed and revalued and their inheritance tax recomputed. So these provisions are serious in the area.

---

[17] See p. 130 for the prepared statement of Mr. Stabler.

I would like to point out one bright point, I would like a little good news, if I could, Mr. Chairman, and that is that maybe we are missing one of the real strong points about the PIK. Maybe the PIK is the first Government program that is causing our competitors around the world to act in unison with us. If I remember hearing the Canadian Minister of Agriculture, when we announced our 10–10 R, he immediately projected an 8-percent increase in Canadian barley. When we announced the PIK, the Canadian Grain Board backed off their incentive program and predicted a reduction in feed grain production by Canada. And maybe we ought to consider this. I am not endorsing PIK on that provision, but we must, down the road, look for a mechanism that causes our competitors to work in concert with us rather than against us.

Senator **Cochran**. A good point. There was a statement made by Mr. Frazier about the possibility of having an advance PIK payment made as an incentive to putting in conservation practices. I was going to ask Neil Sampson what your reaction is to that.

Another comment before you answer the question: I wrote a letter the other day to the Secretary of Agriculture urging that that be considered as part of the PIK program, because it is going to cost some money and there are going to be, in my judgment, incentive needs there if we are going to get conservation practices.

## STATEMENT OF NEIL SAMPSON, EXECUTIVE VICE PRESIDENT, NATIONAL ASSOCIATION OF CONSERVATION DISTRICTS

Mr. **Sampson**. I appreciate Mr. Frazier saying it. I included in my testimony a similar suggestion.[18] When land is set aside, particularly land where good soil conservation requires some construction practices to deal with the erosion problem, it is a good time to them, but there is not going to be much money for that this year. PIK cost sharing could really help. It looks like that would probably take legislation to get done.

If you do that, I would urge you to avoid the $3,500 per farm limitation. It has hampered ACP's ability to cost share beyond the first 150 feet of some of those big terrace jobs.

Senator **Cochran**. What impact do you see PIK having on soil conservation efforts?

Mr. **Sampson**. Unfortunately, we are hearing from county offices that farmers are being told they do not have to worry too much about the conservation provisions on their set-aside land as long as they keep the weeds down.

Mr. Melcher hit on a problem that affects a lot more of the country than just the desert, and that is the summer and fall wheat country. When you come back with set aside on the summer fallow, you have held that land idle twice in a row and you have no way to utilize any kind of vegetative residue. There is just nothing left to protect against erosion. Summer fallow is identified as one of the most serious causes of soil erosion out there, and having it be named a qualifying conservation use by ASCS is a contradiction in both intelligence and terms. So there are some real deficiencies there. We have encouraged the ASC committees to use the conservation districts and the technical expertise of SCS for these determinations, and not just rely on what is doable and easy. Otherwise, we will not achieve the conservation goals we ought to achieve in this program.

---

[18] See p. 147 for the prepared statement of Mr. Sampson.

Senator COCHRAN. Thank you very much, Mr.Sampson.

Senator Melcher?

Senator MELCHER. I just want to add one point. On conservation practices, I do not know why we have to talk in circles. Sometimes we have the Department's viewpoint presented so hazy and vague that we wonder whether they have really thought about it.

The answer to these questions on conservation this morning, Mr. Ahalt and Mr. Rank, that it had all been taken care of under whatever the State committee decided, is just no answer at all. I hope that is not the Department's thinking at the Secretarial level.

It is my understanding the Secretarial level clearly stated that when PIK was implemented, conservation practices required on that land would have to meet the test of practicality. The practicality of it was that in 1983 there would be no particular enforcement of conservation on the idle land except to make sure the weeds were kept down.

That is what they envision. There is no secret about it. It was the only practical thing they could do, without some sort of incentive. The real question on conservation is where is the incentive? PIK is good because it is off budget and it does not have to be counted as part of the deficit for the commodity programs. If it is good for that it ought to be good for payments for cost sharing. I would hope the Department would not be too hesitant to accept that kind of legislation. The problem we have here in Congress is to get enough push going to pass the legislation. And that is needed right now. I do not think we are going to get much in 1983, but there is no excuse for not making sure we do have conservation locked in for the 1984 crop.

I think this is a fine way of achieving that. It gets around the budget argument and it certainly gets to the point of conservation. Are we going to have a viable cost-sharing program? After all, the very essence of agriculture is keeping in good shape for the future.

By the way, I might make one other observation: I think legislation is absolutely imperative because as we go along here you are going to find in each of the commodities areas there is some unique problem. Unless you have legislation, you cannot correct these problems.

Senator COCHRAN. Thank you, Senator.

Senator Helms has sent word that he has been detained in the Foreign Relations Committee. He has sent a statement which he requests be inserted in the record.[19]

I do not have any other specific questions, but I do not want to adjourn the hearing until each of you has had an opportunity to make any comments.

Mr. Newman?

---

[19] See p. 61 for the prepared statement of Senator Helms.

Mr. Newman. Mr. Chairman, thank you. We have been here 3½ hours now. There may be only supply-side solutions in vogue nowadays, but, as I recall, your legislation also addresses the matter of the PIK export area. We are pretty export oriented in our commodity. For over two-thirds of everything that we produce, we look to foreign markets for disposal. We really do not have a domestic problem. We have been successful in continuing to increase the domestic consumption of what we produce.

We think the proposals that you have formulated in the export area address that, and we supported that very strongly in the bill that you introduced in the last Congress.

We would like to tell you that our association will work with you and other groups in any way to further the objectives of what I think you are trying to do.

One of the other witnesses, at the end of the table I think, made the only other statement in 3½ hours of testimony about the problem of some of our foreign competitors.

We have some countries who are subsidizing their farmers directly at levels 3 to 4 times the level of U.S. support prices and then displacing us in the world market by underselling us.

We think some of the proposals, as you envisioned in your legislation, will give the administration the tools to work with to meet these kinds of challenges. The suggestion has been made that, in reviewing this legislation, that maybe this ought to be a mandatory program.

We believe that the Department has a lot of enabling authority now. These types of programs have been used in the past very successfully. And the Department, of course, for a lot of reasons is now reluctant to do this. A statement was made today about starting a trade war. We feel that, as far as our commodity is concerned we have now been in such a war for about 3 years. When you add up the tally, it is very clear we are losing that trade war. Our traditional share of world markets has declined from 25 to about 15 percent and the trend is clear that we are going to continue to have this export problem.

We think that if the Department or the administration is willing to use assets to deal with farm problems, at least as far as our commodity is concerned, those assets would be more efficiently and effectively used in the export area as opposed to the domestic area.

We do not think the solution to our problem is to put producers—we are not overproducing in terms of our traditional share of markets, nor are we overproducing in terms of our efficiency in terms of world markets. We are simply losing—we are simply having markets pulled away from us by foreign governments. And we have the tools to combat that if Congress would get involved and get the administration to do something about it.

I want to commend you for being the first to take the leadership in doing this.

Senator Cochran. Thank you very much.

Are there any further comments or observations that you would like to make?

Mr. Loeslie. Thank you, Mr. Chairman.

I would like to add that we see a direct correlation between foreign policy, farm prices and the cost of Government programs. And we came across some rather startling statistics that we would like to share with you, Mr. Chairman, in 1980 the Soviets took delivery of 4.6 million metric tons of U.S. wheat. Potential sales were 7.2 before the embargo, or a net deficit of 2.6. Following through on those numbers, if we had maintained sales at 7 million tons instead of 3 a total of 14.6 metric tons or 536 million bushels would have been sold through 1983. We have a net carryover of 1.5 plus, so our stocks otherwise would have been very low. And I would like to take that a step further, if I may. If we go back to 1980, we had 60 percent sold to the Soviet Union as our market share. The share has been reduced to 38 to 40 percent, although the Soviets' demands were raised considerably. And if you put that into a percentage, we are looking at them taking 1.4 million tons out of our stocks that we have and we would not need cutback programs. We would be advancing ourselves to keep from being in short supply.

So I would urge that somehow we also direct our attention to the fact that we want to be in this export position, and we cannot have market interference. The net result is that when we have these lower prices, that the Soviets are buying in the world market today, and if they were to continue their buying habits from us we are, in effect, not punishing them and, in a sense, you could say we are subsidizing them.

I would also like to add, if I may, that we certainly would like some bargaining tools in the PIK program. We also think in the export PIK program we have a food security reserve that perhaps the Secretary could be given discretion to use in case he wanted to advance programs. We certainly have adequate supplies.

We commend you for your leadership in this department.

Thank you for the opportunity of being here.

Senator COCHRAN. Thank you.

Mr. Weems?

Mr. WEEMS. Thank you, Mr. Chairman. We, like rice, feel like our markets, particularly in soybean oil, have been stolen away from us due to unfair subsidies by several countries. We would like to see an export PIK program for soybean oil, very similar to what USDA offered for wheat flour.

We feel like this would enable our customers to buy our product at competitive prices. A case in point 1977, 1978 and 1979, when we did $155 million worth of soybean oil business with India. In 1980, Brazil came in and stole our market and reduced that down to $22.1 million. We are not in favor of a trade war but we certainly would like to see somebody drop another shoe. We feel like if the price of soybean oil is raised, that it in all likelihood would raise the price of soybeans.

And we definitely commend you for your initiative on this export PIK and look forward to working with you again.

Senator COCHRAN. Thank you.

Mr. BAILEY. I might address several technical things that you may want to consider in any legislation that may come out.

One is the ASCS staffs are going to be absolutely overburdened come deadline time and a lift on hiring freeze, temporary help or even authorization of voluntary help would be a real benefit.

One on the mechanism on yield, bringing the yield up to where we really produce. I see no short-term solution to overcoming. An alternative, possibly, would be to allow efficiency payments to cover PIK grains. This would tip the balance in areas where guys are yield short, and make it profitable.

Another area that I think we have got to really watch since the Government is in the grain business now is what happens if I am issued a warehouse receipt on October 15 and I go to the warehouse and find out it is bankrupt. We have a real problem there.

A final point, or one point, if we legislate a floor under grain, this will give the IRS the leverage they need to interpret the value as they see fit. I think it is really imperative if we legislate a floor under grain that we be very clear on the $50,000 exclusion so that everything comes out correctly.

My final point is I hope that the export subsidies we are embarking on are not the snowball type that will start world war III. And the point being it is fine to get into a trade war. There is no question, we are in a trade war, but let us not have another Vietnam. Let us figure out where we are going to end up when we jump into that fight.

Thank you.

Mr. NEWMAN. Senator, I thought the group might be interested, Congressman Breaux's assistant just handed me a copy of a bill that Congressman Breaux has introduced in the House that corresponds with your export provisions. In fact, I think it is almost verbatim, the same provisions, titled "Expansion of U.S. Agricultural Export Markets", H.R. 1171.

Senator COCHRAN. We appreciate having Congressman Breaux's support in this area.

Senator Zorinsky in a letter to me includes an attached statement from the Nebraska Association of Farmer-Elected Committeemen and a letter from Donald and Ronald Oelsligle.[20]

Let me express sincerely my appreciation to all of you for your participation and contributing in such a constructive way to the hearing. I think this record is going to be valuable to the committee as we try to determine what kind of legislative action is needed with this program.

With that, we will adjourn.

[Whereupon, at 12:55 p.m., the subcommittee adjourned, subject to call of the Chair.]

---

[20] See p. 66 for the letter from Senator Zorinsky with attached statement and letter.

# APPENDIX

---

## STATEMENT OF HON. JESSE HELMS, A U.S. SENATOR FROM NORTH CAROLINA

I commend Senator Cochran for conducting today's hearing on the payment in kind, or PIK, program. This program is an important initiative to reduce our burdensome surpluses, cut farm program costs, and set the stage for higher farm prices in the marketplace.

Following congressional consideration of payment in kind proposals during December, I urged Secretary Block to implement a PIK program under his existing authorities. I am pleased that President Reagan and Secretary Block have done so.

I am sure many Senators and others have questions about various aspects of the operation of the PIK program. I hope today's hearing will answer them. USDA has announced the program in a timely manner and has revised the program as necessary to address concerns or problems in localized regions as they have arisen. This is realistic and appropriate to expect. However, I would sound a note of caution about making legislative changes in the program.

The time period for farmers to sign up to participate in the PIK program for 1983 crops began on January 24 and will continue through March 11. Since the program has been fully announced and some farmers have already signed up for it, now may not be the time to legislate fundamental changes in the program.

To do so would be to change the rules in the middle of the game. Such action would run counter to the basic purpose of farm programs in the first place, which is to provide an element of stability and predictability in an inherently unstable business.

Farmers assume a lot of risk and deal with the uncertainties of the weather, insects, disease, and the markets. We cannot control all of these factors, but we can and should make the factors we can control—such as government programs—as predictable and consistent as possible. In this case, that means supporting the program which the Secretary has announced, rather than altering the program while sign-up is in progrress.

North Carolina farmers tell me that, while they are concerned about the impact of PIK on the poultry and livestock industries and on the investments in farm equipment and supplies which they have already made, the PIK program is clearly a step in the right direction. Without immediate action such as the PIK program to stop building government stocks and start reducing these large surpluses, I am concerned that farmers cannot expect to see farm prices that will cover their costs of production and allow them to earn a fair profit.

I hope today's hearing will clarify and explain the PIK program for 1983, and further encourage farmers to participate. That is our goal. As more farmers sign up and reduce their acreage under PIK, the sooner we will reduce our surpluses and get back on track toward profits in the marketplace.

---

## STATEMENT OF HON. WALTER D. HUDDLESTON, A U.S. SENATOR FROM KENTUCKY

Mr. Chairman, this hearing is very timely and I commend you for holding it today.

The payment-in-kind program has been widely discussed over the past few months. Part of the attention this proposal has received is due to the disastrous state of the farm economy.

Agriculture is in trouble—farm prices are too low, production costs are too high, the farm debt load is too heavy, and net farm income is at the lowest level in half a century. Worse, without additional action, farmers face further hardship in 1983. The Department of Agriculture projects a further decline in real farm income, another decline in agricultural exports, and very bleak agricultural credit conditions in 1983.

It is clear that the administration has failed to fully address the concerns of our Nation's farmers. This failure contributes to the widespread economic depression in other industries.

### EVENTS LEADING TO THIS HEARING

In the postelection session, the Cochran-Huddleston PIK bill—S. 3074—was introduced and, after hearings were held and, after markup sessions in this subcommittee and by the full committee, the bill was reported. The bill did not come to a vote and essentially the same bill—now called S. 36—is one focus on this hearing.

During the hearing and markup sessions, it became clear that farmers need a certain level of protection as an incentive to encourage participation. S. 36 provides protection for farmers participating in the 1983 PIK program that is absent under the administration's announced programs.

The announced program does not guarantee a minimum value for the grain paid in kind. S. 36 places a floor value equal to 75 percent of the county loan rate. This provision will help to insure the level of participation in the 1983 PIK program that is needed to bring supply more in line with demand.

However, S. 36 will not prevent the Secretary from operating a payment-in-kind program for the 1983 crops along the lines of the announced program. The provisions of S. 36 will provide clear authority for a more comprehensive program than the administration has proposed.

In addition to a domestic PIK program, S. 36 contains authorities for export market development programs using payment in kind. The bill will allow the efficient use of surplus agricultural commodities that might otherwise prove to be burdensome in future years.

The bill also provides for the use of commodities acquired by the Commodity Credit Corporation to increase the level of agricultural exports shipped under titles I and III of Public Law 480. Using our abundant supplies of agricultural products to assist needy people outside the United States is far preferable to paying for storage of those commodities in Government warehouses.

The bill also encourages the Secretary of Agriculture to export at the best price possible, and to donate abroad, dairy products owned by the Commodity Credit Corporation. Specifically, the Secretary will be encouraged to export at least 50,000 tons of dairy products in each of the 1983 through 1985 fiscal years. Such use of CCC dairy products can serve to develop new markets for our dairy products.

The bill also authorizes the donation of surplus agricultural commodities acquired by the Government under price support programs to domestic nutrition projects. Under the bill, the Secretary of Agriculture is to encourage the consumption of surplus agricultural commodities through agreements with private companies under which the surplus commodities will be processed into products for use by eligible recipients. The expense of the processing will be borne by the recipients. This provision gives schools additional options for using free USDA commodities, but places no obligation on them to do so. This provision could encourage the processing of dairy items, such as cheese, into other products readily usable in school lunch programs.

### CONCLUSION

Mr. Chairman, the programs authorized under existing law can do much to expand demand and manage supplies of farm products. However, it has become apparent that we must do more if agriculture is to enjoy real economic recovery. Certainly, an effective land diversion program and an aggressive export market development program as outlined in S. 36 will be good first steps.

Thank you Mr. Chairman.

---

## STATEMENT OF HON. HOWELL T. HEFLIN, A U.S. SENATOR FROM ALABAMA

Thank you, Mr. Chairman.

I am happy that Senator Cochran and Senator Huddleston have seen fit to reintroduce their domestic and export Payment-In-Kind bills.

As evidenced by my cosponsorship of these measures, I view the PIK programs as a positive step toward improving farm income in the short-term by correcting supply-demand imbalances and strengthening the competitive position of U.S. agriculture abroad. It is a bit ironic to me, however, that in these times when America has lost its competitive edge in so many areas, we are going to cut production in the one area where we are the most efficient in the world. Nevertheless, reality dictates that we must temporarily reduce supplies and production if we are to return growth and prosperity to the farm.

In my opinion, Mr. Chairman, legislative sanctioning of the PIK programs is a condition precedent to legitimization of the programs. Otherwise, the Secretary of Agriculture could possibly be confronted with legal entanglements in his efforts to dispose of surplus farm commodities both at home and abroad.

Additionally, I am convinced that Congress should have a say regarding certain features of the PIK programs, particularly the domestic PIK program. My comments this morning will largely be confined to the domestic program for there are certain inequities which must be addressed and, hopefully, corrected either in S. 36 or by a commitment from the Department of Agriculture.

While in Alabama during the Congressional recess last month, I spoke with many farmers about the PIK program and one of the foremost concerns in their minds was the matter of equitable treatment, particularly in a situation where the second crop, such as soybeans, is not now eligible for participation in the program. I am gratified that S. 36 makes provision for equitable PIK payments to farmers where double-cropping is involved. When the Administration unveiled its PIK program last month, this important feature was missing.

Further, it is important from the standpoint of cost and efficiency to many of my Alabama farmers to be able to consolidate base acreges for a PIK commodity among two or more farms where there is agreement among all interested and involved parties. Happily, S. 36 vests such authority in the Secretary of Agriculture.

Although I am confident that the Department of Agriculture is striving in good faith to be fair to every American farmer insofar as giving him an opportunity to participate in the PIK program, there are certain glaring inequities now existing which, if not corrected, will deprive the farmers of Alabama and most of the Southeast the equal opportunity being afforded their peers elsewhere in the nation.

Mr. Chairman, I think it is of the utmost importance that this Committee change the 1983 acreage base for wheat by including acreage harvested in 1982.

I realize that the Department of Agriculture is precluded by the provisions of the 1982 Omnibus Budget Reconciliation Act from changing the bases for wheat, feed grains and rice inasmuch as that law specifically requires that the bases for those commodities be the same as those established for the farm in 1982. In short, that means either the higher amount of wheat acreage harvested on the farm in 1981 or the average of the wheat acreage on the farm in 1980 and 1981.

This, Mr. Chairman, means that our new and/or expanded wheat producers in Alabama last year are at a distinct disadvantage.

According to official figures published by the USDA Crop Reporting Board, Alabama wheat growers harvested 260,000 acres in 1980. In 1981 this figure was more than doubled when Alabama farmers harvested 565,000 acres of wheat. Last year—in 1982—this figure was increased by nearly 40 percent in Alabama when 825,000 acres of wheat were harvested.

This unhappy situation also applies to wheat growers in other states throughout the Southeast in varying degrees—in North Carolina, in South Carolina, in Georgia, in Tennessee, in Louisiana, and in Mississippi.

In Mississippi, for example, wheat acreage increased from 300,000 acres in 1980 to 600,000 acres in 1981 to 1,050,000 acres in 1982.

Thus, we see, Mr. Chairman, that the prohibition against including wheat acreage harvested in 1982 as a means of helping to determine the 1983 base clearly works to a grievous disadvantage to wheat growers in Alabama and elsewhere in the Southeast insofar as being able to participate in the PIK program on a bona fide basis.

I would hope that this Committee will make it its particular business to lift this oppressive injunction so that Southeastern wheat farmers may become full partners in the PIK program.

I am also disturbed over the PIK intitlement dates for entitlement dates which have been determined by the Agriculture Department for corn. In Alabama and much of the Southeast, October 1 is listed as the availability for the entire state.

I would be interested in knowing just how the Department of Agriculture arrived at this date. In Alabama we begin corn harvest on or about July 1, and harvest is normally completed in that area by the end of July. Actually, Alabama has what I shall call two other distinct harvesting zones and in the northern part of the State—in the Tennessee Valley where I live—our corn is usually harvested some weeks before the designated date of October 1.

It seems to me that it would be a simple matter for the Department of Agriculture to amend this date so as to more accurately reflect the actual harvesting dates of corn in Alabama and the Southeast. I note that this has been done in Texas. Just changing these dates a few weeks, Mr. Chairman, will mean much to the farmers who are hard pressed for cash at this time. Also, by establishing these harvesting zones in Alabama and perhaps elsewhere in the Southeast means that the grain will be coming on the market at three different times instead of possibly being dumped on the market all at once on October 1.

I have some other concerns such as the unfairness in the sign-up dates for farmers in Alabama and the Southeast where a whole base bid is involved, but I shall go into these matters with the Administration and public witnesses.

Incidentally, appearing on one of the panels this morning is Dr. Dick Fifield of the Alabama Farm Bureau Federation. Dr. Fifield is recognized as an outstanding spokesman in agriculture and he will give the Committee a clear insight on some of the matters I have just mentioned as well as other points which should be considered by the Committee in formulating our final version of S. 36. I commend his testimony to you.

Thank you, Mr. Chairman.

---

## STATEMENT OF HON. ALAN J. DIXON, A U.S. SENATOR FROM ILLINOIS

Mr. Chairman, what's on all of our minds, here today, is a depressed agricultural economy. Interest rates have moderated some, but they are still too high. Inflation has declined dramatically, but production costs continue to rise. Commodity prices are down, land values have declined, and our export market needs a boost. Yesterday, the USDA released its estimate for net farm income for 1983 at a range of $16 to $20 billion, while the outlays of farm programs is estimated to be $18.3 billion for this fiscal year.

Secretary Block last month announced that the U.S. Department of Agriculture will conduct a payment-in-kind program for wheat, corn, cotton and rice. I applaud the Secretary's action. However, I was disappointed that one very important provision was not included in the announced program. That provision is a floor price for the grain a farmer received for participation.

I, along with Senators Boren, Baucus, and Pryor, recently introduced S. 274, to give the farmers some assurance regarding the value of the grain he or she receives under this program by providing a floor price.

This bill provides that in no case may the value of the commodities received by the producer fall below 85 percent of the basic county loan rate in effect during the marketing year in which the commodities are received by the producer. If the Secretary of Agriculture determines that the average market price for such commodity is less than 85 percent of the loan rate, the Secretary has a number of options, including authorizing the Commodity Credit Corporation to make cash payments, to assure that the producer receives this amount.

I believe this proposal provides a more fair and equitable program, for we cannot transfer the total risk and responsibility from the Federal Government to the farmer.

I also hope that a number of questions can be answered today that are on the minds of the farmers and agribusiness leaders. What effect will this program have on prices and net farm income? What will be the effect on fertilizer, equipment, seed and chemical industries? When will the farmer declare the grain he receives as income—at the time he sells the grain or when he receives the grain from the Government? When will a farmer know where the grain he receives from CCC is located?

Mr. Chairman, I look forward to this hearing today as we will hear from officials of the Department and from leaders of the agricultural community.

---

## STATEMENT OF HON. DAVID PRYOR, A U.S. SENATOR FROM ARKANSAS

Mr. Chairman, I am pleased that you have called this hearing to examine the provisions of the Payment-in-Kind program, commonly referred to as PIK. We considered authorizing legislation for this program late last year, so many members of the Senate are familiar with the concept. I do think, however, that we need to take a close look at the program and see what effect it will have on production and the farm income situation. I have several questions about the program, and also, about ways in which it might be expanded. I am particularly interested in the idea of expanding the PIK program to allow farmers who have suffered losses due to bankruptcies of grain elevators to receive PIK commodities. I have a few questions prepared on this issue and I look forward to hearing the response of the officials of the Department.

Mr. Chairman, there is a great deal of interest in the PIK program in Arkansas. I've received numerous questions about the program as I've travelled around my state, and I can assure you and those representing the Department, that Arkansas farmers are very interested in this program. Farmers are willing to try almost anything to improve the farm income situation.

The farm situation is very bleak, Mr. Chairman, and I am very willing to work with you and other members of this committee to try and improve the situation. The last couple of years we've had bumper crops, yet exports—which we are so dependent upon—have fallen. In 1981 we exported about $43.7 billion in agricultural products, but last year that dropped to $39.1 billion, and it's expected to decline even further to $37.5 billion this year. With this decline, we've seen carryover stocks increase dramatically. I've seen estimates by the USDA that by the end of this year this country will hold 74 percent of the world's feed grain stocks, 44 percent of its wheat stocks, and maybe as much as 60 percent of the soybean stocks. Therefore, something has to be done and I think the PIK program is certainly a step in the right direction.

Again, Mr. Chairman, I appreciate your calling this hearing. It comes at a very critical time and I look forward to hearing the testimony of the witnesses.

---

## STATEMENT OF HON. DAVID BOREN, A U.S. SENATOR FROM OKLAHOMA

Mr. Chairman. First I want to thank you for calling this hearing on the payment-in-kind (PIK) program. You and Senator Huddleston are to be commended for your leadership in attempting to get legislation passed during the lame duck session and now for attempting once again to get Congressional action on this program. I appreciate the opportunity to address this subcommittee today.

We all are aware of the desperate condition of the agricultural economy. Agriculture, the foundation of this country, is in the midst of a depression. We must take action now if we are to avoid an entire collapse of the agricultural economy. We need a major revision of agricultural policy.

I am pleased that the Department followed the initiative of Senators Cochran and Huddleston by implementing a PIK program. I am particularly pleased to see that the Administration has finally recognized the need for massive acreage reductions.

I still have several concerns about the impact this program will have on the income of our farmers. In my opinion, we must establish a minimum price at which the value of the PIK commodity is guaranteed. Especially for wheat, I am afraid that the release of farmer-owned reserve stocks could weaken the already desperately low market prices. Granted, over a long-term period, prices could rise, but I feel it imperative that we protect our farmers in the short-run. We may see better days in two years, but right now we simply must ensure that our farmers can survive that long.

The storage payments provided under the PIK program should help some to provide for the orderly marketing of the PIK commodities. However, in my opinion, five months' worth of storage payment is not sufficient; we need a longer period.

I was deeply disturbed to see that the Department decreased the reserve loan rates. The effect of this will obviously be a decrease in the value of grain. Last year, a bushel of wheat was worth $4.00 under the reserve; this year it is only worth $3.65. It would seem that this is a step in the wrong direction, if indeed one of the purposes of the program is to increase farm income.

At this point, Department officials have made no indication as to whether or not they intend to offer any kind of acreage reduction program for the 1984 crops or the 1985 crops. If we are ever to get agriculture back on its feet, it is imperative that we have a multi-year program. We will never get out of the current situation, if we do not plan ahead.

Not only must we have a multi-year acreage reduction program, we must also make every effort to ease the credit situation for farmers and to increase agricultural exports. We would be short-sighted if we thought we could have one without the other two and still come out okay. We must, of necessity, address all three.

Only when we are working with a multi-year program that addresses supply, demand and credit will we began to see an improvement in the farm economy.

Mr. Chairman, again, I commend you for holding these hearings.

U.S. SENATE,
*Washington, D.C., February 2, 1983.*

Hon. Thad Cochran,
*Chairman, Senate Agriculture Subcommittee on Agricultural Production, Marketing and Stabilization of Prices, Washington D.C.*

DEAR THAD: I want to commend you for holding hearings on the payment-in-kind program.

I have recently had expressions of concern about the administration of the PIK program which I would like to have included in the record of hearings of the Subcommittee together with this letter.

Enclosed for insertion in the hearing record is a letter from Donald D. Oelsligle and Ronald M. Oelsligle explaining reasons why popcorn should be included in the PIK program.

Also enclosed for insertion is the statement of the Nebraska Association of Farmer-Elected Committeemen submitted by Mr. Verner Magnusson, President; Mr. Everett Lech, Vice President, and Mr. Louis Klasna, Secretary-Treasurer, expressing concern over the feed grains bases established for dry land acres of Nebraska, Kansas and South Dakota and the need for adjustment to reflect increases in production during the last three years.

I hope that the Administration will look with favor on these recommendations, which I believe could be implemented under the authorities the Congress has already provided the Secretary of Agriculture. In this connection, a copy of this letter together with the attachments is being forwarded to the Secretary.

Sincerely,

EDWARD ZORINSKY,
*U.S. Senator.*

Enclosure.

---

## STATEMENT OF THE NEBRASKA ASSOCIATION OF FARMER-ELECTED COMMITTEEMEN

Mr. Chairman and members of the subcommittee, we are asking that Senator Edward Zorinsky insert this statement in the record of hearings of the Subcommittee on Agricultural Production, Marketing and Stabilization of Prices concerning the payment-in-kind program.

The impact of the PIK program on market prices for feed grains and wheat is yet to be determined. But there is widespread support for structuring the program so that it will work to curtail excessive stocks. The program simply has to work or we will have experienced another year of failing to get the needed production adjustment toward strengthened market prices and providing farmers the opportunity to return to profitable production.

Nebraska has 1.06 billion bushels of an 8.42 billion bushel stockpile. Therefore, heavy participation by our state's feed grains producers would greatly enhance the success of the PIK program.

From the Administration's perspective, the payment-in-kind program is a boon since it accomplishes the goal of reducing government stocks without significant budgetary outlays. The program does not, however, make available income that farmers need for meeting operating expenses for this year's crops or for the payments they must make on outstanding loans.

One simple adjustment in the program which it is not too late to make, concerns the yield history which is based on reports of the Statistical Reporting Service. The problem is that in dry land areas of Nebraska, Kansas and South Dakota, yields during the last three years have been substantially above yields in earlier years used to establish county yields. The reason is due to favorable growing conditions. The result is that producers in these dry land areas will receive sharply reduced payment-in-kind as compared to areas which have had a normal weather pattern.

We are aware that provisions currently exist to rectify this problem on a case-by-case basis. However, they usually require detailed bookkeeping records of crop yields which are not available. This situation exists because farmers did not anticipate there would be a PIK program.

In order to correct what we believe to be inequitable treatment between grain producing areas in the Midwest, we request that adjustment be made in the dry land areas experiencing high yields during the last three years. Such a revision is not only fair, it provides an inducement for participation in and compliance with the provisions of the PIK program. In the end, farmer participation will determine the success or the failure of the program.

JANUARY 24, 1983.

Senator EDWARD ZORINSKY,
*U.S. Senate,*
*Washington, D.C.*

Hon. EDWARD ZORINSKY: We are farmers and businessmen in Tilden, Nebraska, which is located just west of Norfolk. In 1979, we began growing popcorn as an alternative crop to field corn. Although the popcorn contract price is usually tied closely to field corn (depending on the yearly supply), we felt that it helped diversify our farming operation. In 1979 we raised 200 acres, 1980—1,000 acres, 1981—520 acres, and 1982 600 acres of popcorn. Our problem, Senator Zorinsky, is that these acres were not included when our corn base was determined and thus, these acres are not eligible for entrance in the PIK program. We had the same problem last year, but with only a 10% set aside and a projected popcorn price between 10 and 11 cents a pound, we thought we could still plant some popcorn as a good economic alternative to corn. 1982 was also an excellent year for popcorn and now the popcorn supply situation is comparable to field corn with a projected carry over of 350 million pounds which is approximately 40 to 50% of our annual production.

For 1983, our alternatives are to plant popcorn on these acres, no matter what the supply and price, or not enter the set aside program and plant this ground all to field corn as our only other alternative crop because of herbicide programs and soil type. This is in direct conflict with the goals and objectives of the current farm program. We met with Congresswoman Smith and 25 other popcorn raisers in St. Paul yesterday, and they all have the same problem we do with the same altenatives.

We felt that in the past years we have been helping the field corn supply situation by raising popcorn and are now being penalized for not growing field corn. As you know, in 1979, 1980, and 1981, Nebraska was the number one state in popcorn production. In Nebraska overall production in 1982 was reduced at least 40% because we could see the popcorn stocks beginning to increase. It appears now that 1982 production will be greater even than our 1981 record high because of increased planting in the eastern states where popcorn was planted as an alternative to corn because of the depressed market.

As we evaluate or situation, we cannot understand why popcorn was not included in the determination of our acreage base. We feel this for the following reasons:

(1) Popcorn is the same genus and species as field corn (Zea Mays). One researcher concluded that if teosinte is the wild progenitor of modern corn, then the earliest domesticated corn must have been a popable type. Department of Agriculture officials have told us that if they allow popcorn to be considered as feed grain base acres, then they also must consider alfalfa, sugar beets, etc. The important point, we feel, is that these crops are not the same genus and species as is popcorn (Zea Mays).

(2) White corn, a human consumption product, is considered as part of the corn acreage base in our county and also other counties. One of the arguments given us was that popcorn is not a feed grain but a food crop. If this is the case, why was white corn so considered? Also, in the ASCS guidelines for the current set aside program, it talks about corn for food and feed.

(3) One of the main thrusts of the National Corn Growers Association and also our own federal government is to find alternative uses for corn. We feel that popcorn is one of these, and that because we grew it, we should not be discriminated against when we all want to curb production as one of the ways to work our way out of the surplus we now have. The alternative for not raising popcorn is to stay out of the current reduced acreage program and plant all of our corn and popcorn acreage to field corn. This does not help any of our goals, nor help solve the over supply problem we now have.

We are enclosing some copies of the most current information which we have about popcorn acreage and production in the event that you may have a use for them.[20] If you feel our presence in Washington, DC will help our cause at any time, we are prepared to come. We realize that time is short, but never-the-less we feel the problem is serious enough for us as popcorn and corn producers that you assist us in convincing the USDA to allow popcorn acres to be considered as part of our feed grain base in the Reduced Acreage Program (RAP) so that we can set aside some of these acres in the 1983 Payment-in-Kind Diversion Program (PIK).

We thank you for your consideration of this request.

Sincerely yours,

DONALD D. OELSLIGLE.
RONALD M. OELSLIGLE.

---

[20] The information referred to has been retained in the committee files.

U.S. SENATE,
*Washington, D.C., February 2, 1983.*

Hon. JOHN R. BLOCK,
*Secretary, U.S. Department of Agriculture,*
*Washington, D.C.*

DEAR JACK: Although I support the basic approach of the payment-in-kind (PIK) program, I believe several changes must be made and answers given to producers' questions before the program will achieve its goal of reducing carryover stocks.

I will be asking Congress to consider the issues I outline below. I would also appreciate your consideration of the following points.

One of my most serious reservations about the PIK program is that barley is not included in the program. I know there is a large surplus of barley, both malting and feed barley. This is the first time that barley has been treated differently from the other feedgrains. I believe that percentage adjustments can be made in the present PIK program which would assure an adequate supply of barley to run a PIK program.

A minimum payment provision should be included in the PIK program to minimize the risk to the producer of a decline in market prices. If the program is successful, as you have previously outlined, this provision should never need to be used.

I'm also concerned over the quality of wheat used as payment-in-kind. The payment rate should reflect whether a producer traditionally raises high-protein spring wheat or winter wheat. Without this distinction, a wheat grower raising high quality wheat could receive title to wheat which sells for a lower price in the market.

I believe the payment limitation should be raised from the current $50,000, but should include the PIK program. I would appreciate any information you could provide on the number of producers receiving the maximum payment in the past three years, on whether the payment limit applies to each farm's operation or whether individual members of the same family are eligible to receive payments under separate limitations, and on your best estimate of how many producers would be affected by a payment limit of $75,000 and $100,000 respectively.

I am also concerned over the lack of a cross-compliance requirement in the PIK program. To what extent do you feel that producers with the ability to produce a variety of crops will participate in the PIK program for one crop and not for others? Do you feel the lack of cross-compliance will lessen the progress of the PIK program in trying to reduce production and surplus stocks?

I believe any acreage reduction, paid diversion or PIK program should include an adjustment for farmers who use summer fallow. Without such a provision, you discriminate against those farmers who summer fallow and you reduce the effectiveness of the program because the affected farmers will not participate.

I fully support an export PIK program and will work to see that Congress considers the enabling legislation for such a program as soon as possible.

I ask you to consider extending the sign-up period for the PIK program. I have received a great many questions and concerns over provisions in the program, as I know the Agriculture Stabilization and Conservation Service (ASCS) has. Farmers wanting to sign up for the program should be able to do so with a full understanding of all the provisions contained in the program. For example, is a farmer who relies on rented land protected from the landowner idling the acreage under the PIK program?

I am asking the Senate Agriculture Committee to give the PIK program details their full attention. I believe we need to consider all of the points I have raised and the other concerns that producers have if the PIK program is to succeed in reducing surplus stocks and returning prosperity to our ailing farm economy.

Thank you for your consideration of my concerns. I look forward to working with you on this and other agricultural issues.

With best personal regards, I am

Sincerely,

MAX BAUCUS.

# STATEMENT OF J. DAWSON AHALT
# ACTING DEPUTY UNDER SECRETARY FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS

Mr. Chairman, my colleagues and I appreciate the chance to visit with you and other subcommittee members today to discuss the Payment-In-Kind (PIK) Program. The Department of Agriculture is giving this program top priority. There seems to be a broad consensus developing that the PIK program is the most effective tool available to deal with the excess supply problem currently facing agriculture.

Last year the Congress did not give us the legislative changes that we sought to implement a PIK program. Given the serious situation facing farmers, we could not wait another year and let the surpluses build. Thus, we made several changes in order to operate the PIK program under existing legislative authorities, and announced it on January 11, 1983. Signup began on January 24 and will end on March 11, 1983. Accordingly, we are not seeking legislative changes at this time. Moreover, since we are already into the second week of signup and farmers in southern states are already planting, any changes would be confusing and counterproductive. We urge that the Congress not move ahead with any legislation that would require us to change the announced program. It would be bad for farmers and bad for the agricultural economy. Therefore, the Administration strongly opposes any such changes.

I do not have a lengthy statement. Rather, I propose to submit, subject to your approval, a copy of the fact sheet, the impact analysis and a set of questions and answers relating to the PIK program. I will then be willing to respond to questions concerning the program and will share with you some of the experience we have gained so far.

**United States Department of Agriculture**
**Agricultural Stabilization and Conservation Service**
**P.O. Box 2415**
**Washington, D.C. 20013**

JAN 13 1983

SUBJECT: Request for Approval

TO: Under Secretary for International Affairs and Commodity Programs

THROUGH: Chief, International Affairs and Commodity Programs Staff, OBPA

Final Regulatory Impact Analysis

Payment-in-kind Program for the 1983 Crop Year: Wheat, Corn, Sorghum, Rice, and Upland Cotton; and the Farmer Owned Reserve (FOR) Program for Wheat, Corn, Sorghum, Barley and Oats.

REVIEWED: ______________________ JAN 12 1983
Reviewer, Analysis Division — Date

By: Everett Rank
Administrator

REVIEWED: ______________________ 1-17-83
Acting Chief, International Affairs and Commodity Programs Staff, OBPA — Date

APPROVED: ______________________ Alan T. Tracy 1-17-83
Acting Under Secretary for International Affairs and Commodity Programs — Date

Enclosure

## FINAL REGULATORY IMPACT ANALYSIS

Date: January 11, 1983
Agency: USDA - Agricultural Stabilization & Conservation Service
Contact: Howard C. Williams
USDA-ASCS, P.O. Box 2415
Wash. D.C. 20013
Phone: (202) 447-3391

I. TITLE. Payment-in-kind Program for the 1983 Crop Year: Wheat, Corn, Sorghum Rice, and Upland Cotton; and the Farmer Owned Reserve (FOR) Program for Wheat, Corn, Sorghum, Barley and Oats.

II. ACTION, GROUPS IMPACTED AND DURATION.

A. Action. The 1983 crop programs for wheat, corn, sorghum, rice and upland cotton are revised to include a supplemental payment-in-kind (PIK) program. Under the PIK program, the Commodity Credit Corporation (CCC) will enter into contracts with producers under which producers who divert acreage from the production of 1983 crops of wheat, corn, sorghum, upland cotton or rice and devote the acreage to approved conservation uses will be compensated in the form of quantities of those commodities. The acreage would be in addition to that which the producer has agreed to take out of production under the 1983 acreage reduction and cash land diversion programs previously announced.

Major provisions of PIK are

1. Acreage Diversion. Any producer may enter into a contract to divert not less than 10 percent nor more than 30 percent of the farm acreage base for any crop. In addition, producers may submit bids for a contract to divert 100 percent of the farm acreage base for any crop. Bids must be in terms of the percentage of the farm's yield for the crop which the producers consider to be an acceptable level of compensation. The Department will determine the number of acres for which bids will be accepted for each commodity in each county, based on sign up, particular supply/demand situations, conditions in local areas, and other relevant factors. In no event will more than 50 percent of the total acreage bases for a commodity in a county be taken out of production under this and the previously announced 1983 acreage reduction and cash land diversion programs.

2. Compensation. In the case of contracts for the diversion of between 10 and 30 percent of the acreage base of a commodity, the quantity of the commodity received as compensation will be the acreage diverted times the farm's yield for the commodity, multiplied by 95 percent for wheat and 80 percent for corn, sorghum, upland cotton, and rice. These rates are designed to provide the producer, on average, with a net return at least equal to what he would have had if he were not enrolled in the PIK program.

3. Distribution of PIK.

    a. Producers with outstanding FOR loans obtained before January 12, 1983 or regular price support loans for which they have pledged as security a commodity which the Department is obligated to pay them under PIK, must sell the commodity to the Department, up to the quantity the Department is obligated to pay them, at a price equal to the cost of liquidating the loan. In the case of FOR loans, the price will be reduced by the amount of any unearned advance storage payments. Further, in the case of farm stored FOR loans, the price will include additional compensation to take account of long term storage related commitments the producer may have undertaken. The commodities sold to the Department will then be paid to the producer.

    b. Producers with no outstanding CCC loans will receive commodities from warehouses designated by CCC. In all cases, proper adjustments for grade and other characteristics affecting quality will be made.

    The Department will pay commodities which it owes a producer upon request at any time during the five month period beginning on the normal harvest date for the commodity in the producer's area. These dates will be established by the Department on a county-by-county basis.

4. Other Provisions. Additional administrative and operating provisions are discussed in the Interim Rule published in the Federal Register.

    Additionally, provisions of the 1983 crop farmer-owned reserve (FOR) programs for wheat, corn, sorghum, barley and oats are:

    1. Reserve Loan:
        Wheat - $3.65 per bushel
        Corn - $2.65 per bushel
        Sorghum - $2.52 per bushel
        Barley - $2.16 per bushel
        Oats - $1.36 per bushel
    2. Interest Rate: At prevailing CCC rate for first year of contract, waived second and third years.
    3. Storage Payment: $.265 per bushel except for $.20 for oats.

4. Reserve Entry Date: After the 9-month regular loan period.

5. FOR Quantity: No limit.

B. Groups Impacted.

1. Wheat, Corn and Sorghum -- Groups directly affected include feed grain, soybean, and wheat producers. Those indirectly affected include livestock, poultry, and dairy industries; agribusinesses associated with merchandising seed, feed, fertilizer, fuel, machinery, and grain storage equipment; grain processors lenders; exporters; importers; domestic consumers; and rural communities generally.

2. Rice -- Groups impacted include rice producers and cooperative rice mills, rice millers, associated rice agribusinesses, foreign and domestic rice consumers, rice exporters, input suppliers and rural economies in rice production areas.

3. Upland Cotton -- Groups directly impacted include cotton producers, ginners, warehouse operators, spinners, cottonseed crushers, shippers and textile manufacturers. Those indirectly impacted are agribusinesses associated with merchandising seed, feed, fertilizer, fuel and machinery and rural communities and consumers generally.

C. Duration

This program applies to the 1983 crops of wheat, corn, sorghum, rice and upland cotton.

III. PURPOSE AND NEED FOR ACTION.

A. Legislative Authority. The program will be conducted pursuant to the authority of the Agricultural Act of 1949, as amended, and the Commodity Credit Corporation Charter Act. The Agricultural Act of 1949, as amended by the Agriculture and Food Act of 1981, authorizes the Secretary to make land diversion payments to producers of wheat, feed grains, cotton and rice if the Secretary determines that the payments are necessary to assist in adjusting the total national acreage of the commodities to desirable goals. The Charter Act gives the Corporation broad authority to support the price of agricultural commodities, stabilize agricultural commodity markets and remove and dispose of agricultural surpluses.

B. Summary of Goals. The goals of the 1983 PIK program are to reduce excessive stocks while providing adequate supplies for domestic consumption and world trade, support farm income and enhance prospects for a future market-led recovery in the farm economy, combat inflation hold down Federal costs, and conserve natural resources.

**Background. Record production, coupled with a weak worldwide demand for wheat, feed grains, rice, and cotton due to the global recession** and severe financial problems of some of our major foreign customers, have created undesirable surpluses. Acreage reduction and land diversion programs have already been instituted for the 1983 crops of these commodities under provisions of the Agricultural Act of 1949, as amended. Producers participating in those programs will reduce planted acreage for wheat, feed grains, cotton and rice by at least 20%. However, the following significant changes have occurred since these programs were announced for wheat, corn, sorghum, and upland cotton:

Wheat. Total supplies for 1982/83 have increased three percent. Ending stocks are now projected at a record 1.5 billion bushels, up more than 20 percent. Export projections have been reduced from 1.775 billion bushels to 1.6 billion bushels.

Corn. Total supplies for 1982/83 have increased two percent. Ending stocks are now projected at 3.5 billion bushels, up 22 percent. Export projections have been reduced from 2.35 billion to 2.1 billion bushels.

Sorghum. Although total supplies for 1982/83 are virtually unchanged, a reduction in exports from 275 million to 260 million bushels will contribute to a 12 percent increase in ending stocks.

Upland Cotton. Estimates of 1982-crop production have increased from 10.9 million to 12.0 million bales. At the same time, reduced export prospects have lowered estimates of total 1982 disappearance from

11.8 million to 10.8 million bales. These factors have combined to raise estimated 1982/83 ending stocks from 5.7 million to 7.9 million bales, the highest level since 1966.

Therefore, even with the 1983 programs previously announced, the supply of these commodities as well as rice, will greatly exceed demand. Accordingly, the Department has determined that the diversion of additional acreage from the production of such crops is necessary to adjust the total national acreage of such commodities to desirable goals and that producers should be compensated by receipt of like commodities.

## IV. OPTIONS CONSIDERED.

### A. Acreage Adjustment Programs.

1. Leave the previously announced commodity programs unchanged.
2. Institute a PIK program to supplement announced programs. (Selected Option)

   The PIK program would allow participants to further reduce their 1983 plantings (by 10 to 30 percent of the established acreage base or the whole farm base, on a bid basis, if determined necessary to achieve program objectives) and receive as compensation commodities rather than monetary payments.

### B. Farmer-Owned Reserve (FOR) Program.

1. Implement 1983 crop FOR program provisions the same as that in effect for the 1982 crop.
2. Eliminate reserve loan premiums (lower reserve loans to applicable regular loan levels); delay entry into reserve; maintain storage payment and interest provisions the same as the previous year; place no upper limit on reserve quantities. (Selected Option)

The Secretary shall formulate and administer a reserve program for wheat and feed grains when such commodities are in abundant supply. In carrying out the FOR, the Secretary shall provide for original (direct entry) or extended (delayed entry) price support loans. Reserve loans shall be made at such levels as the Secretary determines appropriate, but not less than the regular loan rates. Storage payments may be set at levels deemed appropriate to encourage program participation. The Secretary shall announce the terms and conditions of the FOR program as far in advance as practicable. In announcing the FOR, the Secretary shall specify the quantity of wheat and feed grains to be stored under the FOR. Upper limits may be placed on reserve quantities, but they may not be less than seven hundred million bushels for wheat and one billion bushels for feed grains.

## V. USDA AND OTHER FEDERAL COSTS.

Based on current projections of participation, supply, and utilization for the 1983 crop, the PIK program would result in significant savings from the programs as currently announced. The following table shows the cost savings for fiscal years 1983 and 1984.

Estimated CCC Outlay Savings From PIK Program and FOR Changes

| | Wheat | | Feed Grains | | Rice | | Cotton | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | FY83 | FY84 | FY83 | FY84 | FY83 | FY84 | FY83 | FY84 | FY83 | FY84 |
| | millions of dollars | | | | | | | | | |
| Payments: | | | | | | | | | | |
| Deficiency | 5 | 185 | 81 | 326 | 29 | 57 | 43 | 278 | 158 | 846 |
| Diversion | -10 | 305 | 22 | 927 | -0- | 22 | 9 | 28 | 21 | 1282 |
| FOR Storage | 52 | 154 | 5 | 231 | NA | NA | NA | NA | 57 | 385 |
| Net Loan & Inventory 1/ | 364 | 679 | -37 | -222 | 10 | -91 | 4 | -150 | 341 | 216 |
| Total Savings | 411 | 1323 | 71 | 1262 | 39 | -12 | 56 | 156 | 577 | 2729 |

| | |
|---|---|
| NA | Not applicable. |
| Minus sign | (-) denotes a net increase in costs |
| 1/ | Includes purchases and sales, storage, handling, transportation and processing outlays. |

## IV. EXPECTED IMPACTS.

### A. Impact on Main Purpose and Need.

1. Wheat. Under the PIK program, harvested acreage is projected to decline 8 million to 12 million acres compared to the announced program. Production will likely decrease by about 265 million bushels. Lower production will likely result in declining carryover stocks in 1983/84 for the first time since 1979/80.

   With the compensation rate for PIK at 95 percent of the farm program yield, it is estimated that approximately 320 million bushels will be needed to compensate PIK participants FOR -- 240 million, outstanding regular loans--50 million and CCC inventory--30 million. As a result, the net quantity remaining in the FOR at the end of the 1983/84 crop year is estimated at 765 million bushels, down about 22 percent from a year earlier and more than 40 percent below expected levels under the previously announced program. CCC inventory is expected to also decline marginally during the 1982/83 marketing year. With continued large wheat supplies, prices should not be materially different with or without PIK.

   Participation in the combined ARP/LDP/PIK program is estimated at about 70 percent of the total wheat acreage base compared with 48.3 percent under the 1982 acreage reduction program. It is estimated that about 60 percent of the participating farms will utilize the PIK program. (See Appendix Table 1.)

2. Corn and Sorghum. With the PIK program, total 1983 feed grain planted acreage is expected to decline 10 million to 12 million acres as compared with the announced program. The reduction in corn planted acres should be 8 million to 10 million acres, while sorghum plantings are projected to be down 1 million to 2 million acres.

   Feed grain production in 1983 will likely decline about 10 percent from the level expected under the announced program. With the lower production, carryover stocks of feed grains in 1983/84 could fall 12 million tons below carryin stocks, and 16 million below projected carryover stocks for the announced program. FOR stocks would be drawn down as reserve grain would primarily be used as PIK. Farm prices of corn under the PIK program may be slightly higher than with the announced program, mainly reflecting the drawdown in total stocks.

   Participation in the 1983 corn program is expected to reach 55-65 percent of the corn base acreage, substantially above the 1982 compliance rate of 29 percent. Approximately half of those who comply in 1983 will also participate in the PIK program.

   Approximately 65-75 percent of the sorghum base is expected to comply in the 1983 sorghum program. Compliance in the 1982 program was 47 percent. Approximately 40-50 percent of those who comply in 1983 will also participate in the PIK program. (See Appendix Tables 2 and 3.)

3. Rice. Rice producers are estimated to enroll about the same amount of rice base under the PIK program as under the announced program. However, producer participation in the PIK program is forecast to result in further reductions of planted acres, production, and ending stocks.

   Total acreage planted to rice under the PIK program is forecast to decline by 0.5 million acres from the 3.2 million forecast under the current program. This additional reduction in acreage is estimated to reduce production by about 21 million hundredweight. As a result, ending stocks of rice are forecast to decline nearly 20 million hundredweight from the level of 70.7 million hundredweight forecast under the current program. CCC inventory of rice is forecast to decline from 54.0 million hundredweight under the current program to 20.0 million hundredweight under the PIK program.

   Under the PIK program, season average prices are forecast to increase about 14 percent. Prices during the first five months of the year are forecast at about the support level, unchanged from estimates under the announced program. (See Appendix Table 4.)

4. Cotton. Total participation in the 1983 acreage reduction program is expected to improve slightly from earlier estimates with the added incentive of a PIK. It is projected that nearly three-fourths of those participating will opt for some level of PIK. Acreage planted for harvest is expected to drop 2.5-3.0 million acres compared to the announced program. Lower acreage is likely to improve average yields somewhat, due to better quality land remaining in production and more concentrated management of that land. Thus, 1983 production is estimated to decline by approximately 2.5 million bales, assuming average weather conditions.

   Due to the continuing large supply of cotton, market prices are not expected to be materially affected during the first several months of the 1983/84 marketing year. Projections for domestic mill use under PIK are the same as for the announced program. However, exports are expected to increase slightly. A decline of approximately 2.7 million bales in 1983/84 ending stocks is anticipated. (See Appendix Table 5.)

5. Farmer-Owned Reserve (FOR). Under the PIK and with FOR changes for the 1983 crop, entries are projected to be 160 million bushels for wheat compared to 40 million bushels if 1982 FOR provisions were continued. For corn, entries are projected at 75 million bushels compared to 700 million under continued 1982 FOR provisions. Continuing the thrust of the FOR at 1982 program levels would have run counter to the objectives of the PIK to reduce stocks while cutting production, lessening the stock overhang on the market in future years and enhancing prospects for a market-led recovery in farm prices. The revisions in the FOR for the 1983 crops of wheat, corn, sorghum, barley and oats will continue the integrity of the reserve program but lessen the incentive to utilize the FOR as an alternative marketing source.

B. Consumer Cost Impacts.

The consumer impact, as related to the overall consumer price index, will be negligible as the farm prices for the various commodities in the PIK program for the 1983/84 marketing year are expected to be about the same as under the previously announced program.

C. Other Significant Economic Impacts

Little or no change is expected in export volume for wheat, corn sorghum, and rice under the PIK program compared with the previously announced program. Exports of cotton are expected to increase slightly.

The impact of the PIK on input industries will be largely due to changes in crop acreage, commodity prices, and net returns to farmers. Reduction in input will reduce farm production expenditures and therefore revenues to the farm input sector. Expenditures for major farm inputs are expected to decline about $1 billion in 1983 due to the PIK program, around a 3-4 percent decline. The estimated impacts for the various segments of the input industry are:

Seed. Acreage reductions due to the PIK program are expected to decrease farmers' seed use by 15 percent for cotton, 10 percent for corn and rice, and 8 percent for wheat. Seed expenditures for other feedgrains should decline slightly. The PIK program will reduce overall seed use about 4 to 6 percent from levels expected under previously announced programs.

Fertilizer. The PIK program will reduce fertilizer use on corn and rice about 7 percent, wheat about 6 percent, and cotton about 12 percent. These reductions will reduce total fertilizer use by about 4 to 7 percent. Fertilizer use was expected to decline 3 to 5 percent from 1982 levels under previously announced programs.

Pesticides. The decline in pesticide use would range from 15 percent for cotton to no change for feed grains as a result of the PIK program. The affected crops account for about two-thirds of all pesticide use. Total pesticide use, therefore, is expected to be down 5 to 7 percent.

Fuel. The decline in fuel and energy use as a result of the PIK program would range from 13 percent for cotton to no change for other feed grains. Crop uses account for about 75 percent of total farm energy use. Overall farm energy use, therefore, is likely to be down 3-4 percent as a result of the PIK program.

Farm Machinery. The PIK program, is expected to have little overall effect on farm machinery purchases, which are already depressed. Since machinery purchases depend on available funds and farm income as well as on acreage planted, improvements in the farmers' cash flow and possibly in net income, resulting from the PIK program, could have a positive effect on machinery purchases--about offsetting the negative effects from reduced planted acreage.

Reduced production will also impact on other related industries such as warehouse operators, grain bin manufacturers, cotton ginners, cottonseed crushers, textile manufacturers, etc. However, to lessen these possible short-term negative economic impacts, the overall amount of acreage that can be taken out of production in a county cannot exceed 50 percent of the acreage base.

With the PIK program, the longer term economic outlook for the agricultural sector should improve as a result of bringing supplies more in line with demand. The reduction in stocks will provide a potential for price recovery when the general economy improves. Improvement in the financial conditions of the farm sector will subsequently have a positive economic impact on associated agribusinesses.

### D. Other Significant Social Impacts

None.

### E. Distribution of Effects.

Significant impacts of the PIK program will be distributed among producers and farm input suppliers. The majority of effects will accrue to producers and suppliers in states accounting for the greatest production:

1. Wheat. Idaho, Kansas, Minnesota, Montana, Nebraska, North Dakota, Oklahoma, South Dakota, Texas, and Washington account for 75 percent of production.
2. Corn and Sorghum. Seven states (Iowa, Illinois, Nebraska, Minnesota, Indiana, Ohio, and Wisconsin) produce about 66 percent of all U.S. corn, four States (Texas, Kansas, Nebraska, and Missouri) produce over 85 percent of the sorghum.
3. Rice. Produced primarily in Arkansas, California, Louisiana, Mississippi, Missouri, and Texas.
4. Upland Cotton. Major producing States are Alabama, Arizona, Arkansas, California, Georgia, Louisiana, Mississippi, Missouri, New Mexico, North Carolina, Oklahoma, South Carolina, Tennessee, and Texas.

### F. Environmental Impact Evaluation.

The 1983 PIK program determinations will have no impact on the quality of the human environment. Therefore, neither an Environmental Assessment nor an Environmental Impact Statement is needed.

## VII. REASON FOR SELECTION OF OPTIONS

The economic outlook for wheat, corn, sorghum, rice and cotton continues to be one of large surpluses, depressed prices, and high government costs. Because of unanticipated further increases in domestic and world supplies and further weakening of foreign demand for U S. farm products, the acreage reductions provided under previously announced programs, while significant, were deemed inadequate to resolve the surplus problem within a reasonable period of time. Additional action was believed to be necessary to improve the supply and demand price relationships.

The PIK and FOR options were selected because they afforded an opportunity to reduce production, reduce government-held stocks and inventories, and maintain market supplies. Commodity prices may not increase significantly in the near term, though they should firm as storage payments permit greater marketing flexibility and buyers realize that stocks are being reduced. Once stocks are reduced significantly through the PIK program, then substantial opportunities for price increases will exist. The PIK program is unique in that it promotes farm income while at the same time reduces costs to the Federal Government and, thus, to U.S. taxpayers.

## VIII. REGULATORY REVIEW

In compliance with Secretary's Memorandum No. 1512-1, review of the regulations contained in 7 CFR 713, for need, currency, clarity and effectiveness indicates changes are necessary and will be made accordingly.

## IX. PUBLIC COMMENTS.

If the PIK program is to be effective in reducing production with respect to 1983 crops in order to assist in bringing supply in line with demand and stabilizing the domestic market, the program must be implemented as soon as possible without opportunity for advance public comment so that producers and others can be made aware of their opportunity to participate in the program. However considerable discussions have been held with farm and other organizations, and with the Congress, on the possible implementation of a PIK program. Views and recommendations provided by those discussions were considered in developing the interim final rule. Public comments on the interim rule are invited and those received on or before February 11, 1983, will be considered and any appropriate changes in the program will be made before the final rule is issued.

APPROVED

Everett Rank — JAN 14 1983
Administrator,
Agricultural Stabilization and Conservation Service — Date

Stephen B Dewhurst — 1/17/83
Director
Office of Budget and Program Analysis — Date

William G Lesher — 1/18/83
Assistant Secretary for Economics — Date

Alan T. Tracy — 1/19/83
Acting Under Secretary,
International Affairs and Commodity Programs — Date

Appendix Table 1

WHEAT: Acreage, Yield, Supply, Utilization and Price Estimates

| | | Current Program | | PIK Program | |
|---|---|---|---|---|---|
| | 1981/82 | 1982/83 | 1983/84 | 1982/83 | 1983/84 |
| ACREAGE: (Million Acres) | | | | | |
| Allocation Factors | 1.0000 | -- | -- | -- | -- |
| NPA/AC. Base | 84.5 | 90.7 | 90.7 | 90.7 | 90.7 |
| Acreage Base in Program | -- | 43.7 | 59.2 | 43.7 | 64.3 |
| Set-Aside | -- | 5.8 | 8.6 | 5.8 | 7.4 |
| Diversion/PIK | -- | -- | 3.0 | -- | 3.2/11.5 |
| Participation % 1/ | | 48.2 | 65.3 | 48.2 | 70.9 |
| PLANTED | 88.9 | 87.3 | 82.5 | 87.3 | 77.5 |
| HARVESTED | 80.9 | 78.8 | 75.5 | 78.8 | 65.6 |
| YIELD/HARVESTED AC. | 34.5 | 35.6 | 35.0 | 35.6 | 36.3 |
| Program Yield | 34.6 | 32.5 | 33.3 | 32.5 | 33.3 |
| SUPPLY: (Million Bushels) | | | | | |
| Beginning Stocks | 989 | 1163 | 1509 | 1163 | 1509 |
| Production | 2793 | 2809 | 2645 | 2809 | 2380 |
| Imports | 3 | 2 | 2 | 2 | 2 |
| TOTAL SUPPLY | 3785 | 3974 | 4156 | 3974 | 3891 |
| UTILIZATION (Million Bushels) | | | | | |
| Feed & Residual | 137 | 150 | 135 | 150 | 135 |
| Food | 600 | 610 | 620 | 610 | 620 |
| Seed | 112 | 105 | 105 | 105 | 105 |
| TOTAL DOMESTIC USE | 849 | 865 | 860 | 865 | 860 |
| Exports | 1773 | 1600 | 1525 | 1600 | 1525 |
| TOTAL USE | 2622 | 2465 | 2385 | 2465 | 2385 |
| ENDING STOCKS (Million Bushels) | 1163 | 1509 | 1771 | 1509 | 1506 |
| Farmer-Owned Reserve | 562 | 975 | 1310 | 975 | 765 |
| CCC-Owned Reserve | 40 | 38 | 63 | 38 | 30 |
| Food Security Reserve | 147 | 147 | 147 | 147 | 147 |
| Free Stocks | 414 | 349 | 251 | 349 | 564 |
| PRICES ($/Bu.) | | | | | |
| Target Level | 3.81 | 4.05 | 4.30 | 4.05 | 4.30 |
| Loan/FOR Entry Prices | 3.20/3.50 | 3.55/4.00 | 3.65/4.00 | 3.55/4.00 | 3.65/3.65 |
| Season Average Price | 3.65 | 3.45 | 3.65 | 3.45 | 3.65 |
| Deficiency Payment Rate | .15 | .50 | .65 | .50 | .65 |
| GROSS INCOME (Million $) | | | | | |
| Farm Value of Production 2/ | 10194 | 9691 | 9654 | 9691 | 9672 |
| Producer Payments 3/ | 785 | 729 | 1517 | 729 | 1300 |
| TOTAL | 10979 | 10420 | 11171 | 10420 | 10972 |
| PRODUCTION COSTS (Mil. $) A/ | 6643 | 6566 | 6498 | 6566 | 6183 |
| NET PRODUCER RETURNS (Mil. $) B/ | 4336 | 3854 | 4673 | 3854 | 4751 |

A/ Includes variable production per acre. (1981 - $65.04; 1982 - $63.19; 1983 - $64.35) Conservation Use Acreage variable costs - $25.00 per acre.

B/ Equals farm value of production plus producer payments less production costs.

1/ Acreage base on participating farms as a percent of total acreage base.

2/ Includes estimated PIK Value.

3/ Includes deficiency, diversion, disaster and producer storage payments.

ASCS/AD
1/6/83

Appendix Table 2

CORN: Summary of Projected Supplies and Utilization

| | Announced Program | | PIK | |
|---|---|---|---|---|
| | 1982/83 | 1983/84 | 1982/83 | 1983/84 |
| **Acreage** (Mil. Ac.) | | | | |
| National Allocation factor (% | | | | |
| Allotment/national program ac | | | | |
| Set-aside | 2.1 | 4.8 | 2.1 | 3.7 |
| Diverted | | 4.9 | | 4.7 + 8.6 |
| Set-aside participation (%) | 29 | 60 | 29 | 60 |
| Planted | 81.9(18.8)* | 79.0(38)* | 81.9(18.8)* | 70.0(29.6)* |
| Harvested | 72.8 | 69.0 | 72.8 | 60.0 |
| **Yield/harvested acre** (Bu./Ac.) | 114.4 | 111.0 | 114.4 | 114.6 |
| **Program yield** (Bu./Ac.) | 95.5(101)1/ | 100.0 | 95.5(101)1/ | 100.0 |
| **Supply** (Mil. Bu.) | | | | |
| Beginning stocks | 2,366 | 3,497 | 2,366 | 3,497 |
| Production | 8,330 | 7,659 | 8,330 | 6,876 |
| Imports | 1 | 1 | 1 | 1 |
| Total Supply | 10,697 | 11,157 | 10,697 | 10,374 |
| **Utilization** (Mil. Bu.) | | | | |
| Feed | 4,200 | 4,335 | 4,200 | 4,315 |
| Food, Seed, Ind. 1/ | 900 | 950 | 900 | 950 |
| Total Domestic | 5,100 | 5,285 | 5,100 | 5,265 |
| Exports | 2,100 | 2,225 | 2,100 | 2,225 |
| Total Use | 7,200 | 7,510 | 7,200 | 7,490 |
| **Ending Stocks** (Mil. Bu.) | 3,497 | 3,647 | 3,497 | 2,884 |
| Farmer-owned reserve | 2,300 | 2,515 | 2,300 | 1,940 |
| CCC inventory | 475 | 535 | 475 | 330 |
| Free | 722 | 597 | 722 | 614 |
| **Prices** ($/Bu.) | | | | |
| Target price | 2.70 | 2.86 | 2.70 | 2.86 |
| Loan rate | 2.55/2.90 | 2.65 | 2.55/2.90 | 2.65 |
| Season average price | 2.25 | 2.60 | 2.30 | 2.65 |
| Payment Rate | .15 | .21 | .15 | .21 |
| **Gross Income** (Mil. dol.) | | | | |
| Farm value of production 2/ | 18,742 | 19,913 | 19,159 | 19,909 |
| Producer Payments 3/ | 904 | 2,304 | 904 | 1,879 |
| Total | 19,646 | 22,217 | 20,063 | 21,788 |
| PRODUCTION COSTS (MIL.$) A/ | 12,343 | 12,194 | 12,345 | 11,015 |
| NET PRODUCER RETURNS (MIL.$) B/ | 7,303 | 10,023 | 7,718 | 10,773 |

*Acreage in the program.

1/ Program yield on participating farms.

2/ Includes estimated PIK value.

3/ Includes deficiency, diversion, disaster, and producer storage.

A/ Includes variable cost of production per acre (1982 - $150.08; 1983 - $151.28). Conservation Use Acreage variable cost - $25 per acre.

B/ Equals farm value of production plus payments less production costs.

ASCS/AD
1/6/83

Appendix Table 3

SORGHUM : Summary of Projected Supplies and Utilization

| | ANNOUNCED PROGRAM | | PIK | |
|---|---|---|---|---|
| | 1982/83 | 1983/84 | 1982/83 | 1983/84 |
| Acreage (Mil. Ac.) | | | | |
| National Allocation factor (% | | | | |
| Allotment/national program ac | | | | |
| Set-aside | .7 | 1.2 | .7 | 1.0 |
| Diverted | | 1.2 | | 1.3 + 2. |
| Set-aside participation (%) | 47 | 68 | 47 | 71 |
| Planted | 15.8 (6.0)* | 14.5 (9.3)* | 15.8 (6.0)* | 13.1(7. |
| Harvested | 13.8 | 12.4 | 13.8 | 11.2 |
| Yield/harvested acre (Bu./Ac.) | 59.8 | 60.5 | 59.8 | 61.2 |
| Program yield (Bu./Ac.) | 54.1 (59)1/ | 56.8 | 59.0 | 56.8 |
| Supply (Mil. Bu.) | | | | |
| Beginning stocks | 292 | 447 | 292 | 457 |
| Production | 826 | 750 | 826 | 685 |
| Imports | - | - | - | - |
| Total Supply | 1,118 | 1,197 | 1,118 | 1,142 |
| Utilization (Mil. Bu.) | | | | |
| Feed | 400 | 400 | 390 | 395 |
| Food, Seed, Ind. 1/ | 11 | 11 | 11 | 11 |
| Total Domestic | 411 | 411 | 401 | 406 |
| Exports | 260 | 260 | 260 | 260 |
| Total Use | 671 | 671 | 661 | 666 |
| Ending Stocks (Mil. Bu.) | 447 | 526 | 457 | 476 |
| Farmer-owned reserve | 375 | 450 | 385 | 355 |
| CCC inventory | 50 | 45 | 50 | 45 |
| Free | 22 | 31 | 22 | 76 |
| Prices ($/Bu.) | | | | |
| Target price | 2.60 | 2.72 | 2.60 | 2.72 |
| Loan rate | 2.42/2.75 | 2.52 | 2.42/2.75 | 2.52 |
| Season average price | 2.20 | 2.50 | 2.25 | 2.50 |
| Payment rate | .18 | .20 | .18 | .20 |
| Gross Income (Mil. dol.) | | | | |
| Farm value of production 2/ | 1,817 | 1,875 | 1,859 | 1,913 |
| Producer payments 3/ | 168 | 349 | 168 | 295 |
| Total | 1,985 | 2,224 | 2,027 | 2,208 |
| PRODUCTION COSTS (MIL.$) A/ | 1,253 | 1,220 | 1,253 | 1,158 |
| NET PRODUCER RETURNS (MIL.$) B/ | 732 | 1,004 | 774 | 1,050 |

*Acreage in the program.

1/ Program yield on participating farms.

2/ Includes estimated PIK value.

3/ Includes deficiency, diversion, disaster, and producer storage.

A/ Includes variable cost of production per acre (1982 - $78.19, 1983 - $80.01).
Conservation Use Acreage variable cost - $25 per acre.

B/ Equals farm value of production plus payments less production costs.

ASCS/AD
1/6/83

Appendix Table 4

RICE: SUMMARY OF PROJECTED SUPPLY AND UTILIZATION

| ITEM | CURRENT PROGRAM 1982/83 | CURRENT PROGRAM 1983/84 | PIK PROGRAM 1982/83 | PIK PROGRAM 1983/84 |
|---|---|---|---|---|
| Acreage (thousand ac.) | | | | |
| Planted | 3,285 | 3,200 | 3,285 | 2,700 |
| Harvested | 3,252 | 3,180 | 3,252 | 2,680 |
| Required Reduction | 422 | 505 | 422 | 400 |
| Land Diversion | - | 170 | - | 170 |
| Payment-in-Kind | - | - | - | 600 |
| Participation Rate | 75 | 86 | 75 | 86 |
| Yield/Harvested Ac.(lbs. ac.) | 4,742 | 4,800 | 4,742 | 4,925 |
| Program Yield (lbs./ac.) | 4,845 | 4,673 | 4,845 | 4,673 |
| Supply (mil. cwt.) | | | | |
| Beginning Stocks | 48.9 | 62.2 | 48.9 | 62.9 |
| Production | 154.2 | 152.6 | 154.2 | 132.0 |
| Imports | .4 | .4 | .4 | .4 |
| Total Supply | 203.5 | 215.2 | 203.5 | 195.3 |
| Utilization (mil. cwt.) | | | | |
| Food | 44.0 | 45.9 | 44.0 | 45.9 |
| Seed | 4.4 | 4.4 | 3.7 | 4.0 |
| Industry | 13.9 | 15.2 | 13.9 | 15.2 |
| Total Domestic | 62.3 | 65.5 | 61.6 | 65.1 |
| Exports | 69.0 | 69.0 | 69.0 | 69.0 |
| Residual | 10.0 | 10.0 | 10.0 | 10.0 |
| Total Utilization | 141.3 | 144.5 | 140.6 | 144.1 |
| Ending Stocks (mil. cwt.) | 62.2 | 70.7 | 62.9 | 51.2 |
| Farmer-Owned Reserve | - | - | - | - |
| CCC Inventory | 45.0 | 54.0 | 21.0 | 20.0 |
| Free | 17.2 | 16.7 | 41.9 | 31.2 |
| Prices ($/cwt.) | | | | |
| Target Price | 10.85 | 11.40 | 10.85 | 11.40 |
| Loan Rate | 8.14 | 8.14 | 8.14 | 8.14 |
| Diversion Payment Rate | - | 2.70 | - | 2.70 |
| Season Average Price | 8.00 | 8.14 | 8.00 | 9.25 |
| 5-month Average Price | 8.00 | 8.14 | 8.00 | 8.14 |
| Deficiency Payment Rate | 2.71 | 3.26 | 2.71 | 3.26 |
| Government Outlays (mil. $) | | | | |
| Deficiency Payments | 251.3 | 308.5 | 251.3 | 251.4 |
| Diversion Payments | - | 21.5 | - | 21.5 |
| Net Loan & Acquisitions | 227.9 | 86.7 | 227.9 | 200.7 |
| Inventory Storage | 26.8 | 52.2 | 19.6 | 22.0 + 8.5 |
| Inventory Sales | 21.8 | - | 48.8 | 32.6 |
| Total | 527.8 | 468.9 | 547.6 | 536.7 |
| Economic Factors (mil. $) | | | | |
| Value of Production | 1,234 | 1,242 | 1,234 | 1,221 |
| Total Gross Income | 1,485 | 1,572 | 1,485 | 1,494 |
| Operating Costs | 1,268 | 1,286 | 1,268 | 1,085 |
| Net Returns | 217 | 286 | 217 | 409 |
| Net Returns/Acre | 66 | 89 | 66 | 151 |
| Gross Income 1/ | | | | |
| Farm Value of Production | 1,234 | 1,242 | 1,234 | 1,416 |
| Producer Payments | 251 | 330 | 251 | 273 |
| Total | 1,485 | 1,572 | 1,485 | 1,689 |
| Production Costs 2/ | 926 | 933 | 926 | 802 |
| Net Producer Returns | 559 | 639 | 559 | 887 |

1/ Includes value of PIK.

2/ Variable and cover crop costs only.

ASCS/AD
1/6/83

Appendix Table 5

UPLAND COTTON: SUMMARY OF PROJECTED SUPPLY AND UTILIZATION

| ITEM | CURRENT PROGRAM |  | PIK PROGRAM |  |
|---|---|---|---|---|
|  | 1982/83 | 1983/84 | 1982/83 | 1983/84 |
| Acreage (mil. ac.) |  |  |  |  |
| Planted | 11.5 | 12.0 | 11.5 | 9.2 |
| Harvested | 9.4 | 11.4 | 9.4 | 8.7 |
| Required Reduction | 1.6 | 2.3 | 1.6 | 1.9 |
| Land Diversion | -- | .1 | -- | -- |
| Payment-in-Kind | -- | -- | -- | 2.8 |
| Participation rate | 78 | 80 | 78 | 85 |
| Yield/Harvested Ac. (lbs. ac.) | 612 | 525 | 612 | 550 |
| Supply (mil. bales) |  |  |  |  |
| Beginning Stocks | 6.6 | 7.9 | 6.6 | 7.9 |
| Production | 12.0 | 12.5 | 12.0 | 10.0 |
| Imports | -- | -- | -- | -- |
| Total Supply | 18.6 | 20.4 | 18.6 | 17.9 |
| Utilization (mil. bales) |  |  |  |  |
| Domestic Mill Use | 5.4 | 5.6 | 5.4 | 5.6 |
| Exports | 5.4 | 6.3 | 5.4 | 6.5 |
| Total Utilization | 10.8 | 11.9 | 10.8 | 12.1 |
| Ending Stocks (mil. bales) | 7.9 | 8.6 | 7.9 | 5.9 |
| CCC Loans Outstanding | 2.2 | 1.3 | 1.7 | .7 |
| CCC Inventory | 2.7 | 4.2 | -- | -- |
| Committed to PIK | -- | -- | 3.2 | 2.4 |
| Free | 3.0 | 3.1 | 3.0 | 2.8 |
| Prices (¢/lb.) 1/ |  |  |  |  |
| Target Price | 71.00 | 76.00 | 71.00 | 76.00 |
| Loan Rate | 57.08 | 55.00 | 57.08 | 55.00 |
| Diversion Payment Rate | -- | 25.00 | -- | 25.00 |
| Government Outlays (mil. $) |  |  |  |  |
| Deficiency Payments | 575 | 880 | 575 | 746 |
| Diversion Payments | -- | 14 | -- | 5 |
| Disaster Payments | 179 | -- | 179 | -- |
| Gross Income (mil. $) |  |  |  |  |
| Farm Value of Production 2/ | 3,632 | 3,738 | 3,632 | 3,744 |
| Producer Payments | 754 | 894 | 754 | 751 |
| Total | 4,386 | 4,632 | 4,386 | 4,495 |
| Production Costs (mil. $) 3/ | 3,167 | 3,340 | 3,167 | 2,633 |
| Net Producer Returns (mil. $) | 1,219 | 1,292 | 1,219 | 1,862 |

---

1/ USDA is prohibited from publishing cotton price projections.
2/ Includes estimated values for cottonseed and PIK.
3/ Variable and cover crop costs only.

ASCS/AD
1/6/83

## FACT SHEET
## Payment-In-Kind (PIK)

### Background

In the past two years, U.S. and world grain production has reached record levels. Weather also contributed to a sharp jump in world production of oilseeds in 1982, and large cotton crops in foreign countries. At the same time, the sources of strength in the demand for U.S. agricultural products have been eroded by a variety of factors: weak economic conditions in the U.S. and throughout the rest of the world, financial instability in a number of countries, the strong U.S. dollar, losses related to the Soviet embargo, continued East-West tensions, unfair trade practices by some of our export competitors, and restrictive market actions by some foreign buyers.

Rising world production in the face of weakened demand has led to a sharp accumulation in world stocks. By the end of 1982/83, world grain stocks will likely reach a record 260 million tons, nearly double the level of two years ago. This would be equal to two months' supply of grain, the highest global stocks-to-use ratio in more than a decade--and nearly 60 percent of the stocks are in the U.S.

U.S. stocks of nearly all major commodities have increased dramatically. By the end of the current 1982/83 crop year, compared with two years earlier, our ending stocks of rice and feed grains will have tripled. The farmer-owned reserve for corn will have increased twelve-fold approaching 2.5 billion bushels. The wheat reserve will have more than doubled and reached nearly 1 billion bushels. Cotton stocks will be nearly three times larger than two years before.

### PIK Program and Impacts

- The PIK program is a land diversion program designed to bring supplies more in in line with demand. The Government offers farmers an amount of commodity for reducing acreage by a larger amount than called for under previously announced programs.

- Total harvested acreage for the five crops is expected to be reduced by 23 million acres relative to previously announced program. Total wheat, corn and sorghum production will be reduced by over 1 billion bushels (10 percent) with cotton production reduced by 2.5 million bales (20 percent) and rice production by 21 million cwt. (15 percent).

- Total ending stocks of wheat, corn and sorghum for 1983/84 are expected to be reduced by over 1 billion bushels from levels expected under the previously announced 1983/84 programs and around 600 million bushels below 1982/83 levels. Upland cotton stocks will be reduced by 7.7 million bales relative to earlier expectations for 1983/84 with rice stocks dropping by about 20 million cwt. The PIK program is self-terminating when excessive stocks are reduced.

- Although production will be reduced, total supplies of grains and cotton will be ample to meet both foreign and domestic needs and ensure our role as a reliable supplier.

- Sound conservation practices would be applied to 23 million acres more land than under previously announced 1983 programs.

- Farmers can expect to receive the same or greater net returns while the stock adjustments are occurring. Commodity prices may not increase significantly in the near term, though they should firm as storage payments permit greater marketing flexibility and buyers realize that stocks are being reduced. Once stocks are reduced significantly through the PIK program, then substantial opportunities for price increases will exist.

- The impact of the PIK program on input industries will be largely due to net returns to farmers and changes in crop acreages. Reduced acreages will likely reduce total input use slightly in 1983 but improved returns in 1983-84 will tend to increase input use. Expenditures for major farm inputs may decline only about 3-4 percent relative to estimates before the PIK program.

- Commodity Credit Corporation (CCC) outlays, which totaled around $12 billion in FY 1982, are expected to be reduced by over $3 billion during FY 1983-84 relative to previously announced programs.

Impact of Payment-in-Kind Program

| | | | 1983/84 | | |
|---|---|---|---|---|---|
| | | 1982/83 | Current Program | Current Program & PIK | Impact of PIK Program |
| WHEAT | | | | | |
| Acreage harvested | mil. acres | 78.8 | 75.5 | 65.6 | -9.9 |
| Production | mil. bu. | 2,809 | 2,645 | 2,380 | -265 |
| Ending Stocks | " | 1,509 | 1,771 | 1,506 | -265 |
| FOR 1/ | | 975 | 1,310 | 765 | -545 |
| CORN | | | | | |
| Acreage harvested | mil. acres | 72.8 | 69.0 | 60.0 | -9.0 |
| Production | mil. bu. | 8,330 | 7,659 | 6,876 | -783 |
| Ending Stocks | " | 3,497 | 3,647 | 2,884 | -763 |
| FOR 1/ | " | 2,300 | 2,515 | 1,940 | -575 |
| GRAIN SORGHUM | | | | | |
| Acreage harvested | mil. acres | 13.8 | 12.4 | 11.2 | -1.2 |
| Production | mil. bu. | 826 | 750 | 685 | -65 |
| Ending Stocks | " | 447 | 526 | 476 | -50 |
| FOR 1/ | " | 375 | 450 | 355 | -95 |
| UPLAND COTTON | | | | | |
| Acreage harvested | mil. acres | 9.4 | 11.4 | 8.7 | -2.7 |
| Production | mil. bales | 12.0 | 12.5 | 10.0 | -2.5 |
| Ending Stocks | " | 7.9 | 8.6 | 5.9 | -2.7 |
| RICE | | | | | |
| Acreage harvested | mil. acres | 3.252 | 3.180 | 2.680 | -0.5 |
| Production | mil. cwt. | 154.2 | 152.6 | 132.0 | -20.6 |
| Ending Stocks | " | 62.2 | 70.7 | 51.2 | -19.5 |

1/ Farmer-owned reserve.

## General Q & A's on the Operation of the 1983 PIK Program
REVISED 1-20-83 1/

### 1 What is a Payment-In-Kind Program?

The PIK program is designed to encourage farmers to further reduce 1983 crop acreages of wheat, corn, sorghum, upland cotton and rice from the previously announced programs. In return for participation in a PIK program, a producer will receive an amount of the commodity as payment for reducing planted acreage.

### 2 Why is a PIK Program Needed?

The announced 1983 program(s) for wheat, corn, sorghum, rice and cotton were designed to reduce excess supplies which have been depressing farm prices. Despite the Department's best effort to announce effective programs, several factors have come together to prevent the programs from actually reducing 1983/84 ending stocks and the downward pressure on prices and incomes that farmers are now experiencing. Some of the most important factors include:

A **Large Global Supplies**. There was record world production of grains, oilseeds, and cotton in 1981/82, record world crops of grains and oilseeds again in 1982/83. We estimate that by the end of 1982/83 the United States will hold nearly 150 million tons of grain stocks, roughly 60 percent of the world's carryover and more grain than we export annually.

B **Global Recession**. Demand has been very weak. World use of feed grains, which had been growing at an average rate of 16 million metric tons (mmt), each year over the past two decades, has not increased since 1978/79; world wheat consumption, which had been increasing at an average 10 mmt per year since 1960, has been flat since 1979/80.

C **Strong U.S. Dollar**. The value of the U.S. dollar relative to 10 major currencies is at its highest level since 1969. The increasing value of the dollar has actually increased the price of our commodities in terms of foreign currencies despite the decline in prices in U.S. dollar terms.

D **Financial Plight of Major Importers**. Financial problems of a number of middle income countries, which represent a significant portion of the foreign demand for U.S. farm products, have impacted on our export potential.

### 3 What are the objectives of the PIK program?

--- Reduce stocks while cutting production, lessening the overhang on the market in future years and enhancing prospects for a market-led recovery in farm prices.

--- Maintain supplies in marketplace, showing the U.S. intends to be a reliable supplier abroad.

--- Minimize CCC loan forfeitures by utilizing commodities under outstanding regular loans for PIK compensation.

--- To reduce Farmer-Owned Reserve (FOR) stocks to more desirable levels by utilizing these stocks for PIK compensation.

--- To promote farm income while at the same time reducing costs to the Federal Government and, thus, to U.S. taxpayers.

--- To lessen storage space problems.

### 4 Why not a larger paid diversion program instead of the PIK?

A larger paid diversion program would be more costly than the PIK program, and would not accomplish the objective of sharply reducing the FOR and government inventories. The PIK program is the most cost-effective program for reducing stocks, and getting the agriculture sector on the road to recovery.

1/ Changes in questions and answers 1-84 are indicated by an asterisk. Questions and answers starting with number 85 are new.

5 When will farm operators be able to sign up in the program?

Signup will begin January 24 and end March 11, 1983. The end of signup for the previously announced acreage reduction and land diversion programs will be advanced to also end on March 11.

6 Why is the ending signup date for the previously announced programs being changed?

We need to have signup in the acreage reduction and land diversion programs complete before the county ASC committees begin to evaluate the bids received under the whole base PIK diversion. Setting an early date permits producers to make their farming plans on a timely basis.

7 Does the PIK program change any aspects of the previously announced programs?

No. All provisions of the acreage reduction and land diversion programs as previously announced will apply for farms that participate in the the PIK program.

8 Who is eligible to participate in the PIK program?

Producers on any farm for which an 1983 acreage base and yield has been established for wheat, corn and sorghum, rice, and upland cotton under the previously announced programs.

9 How were the 1983 acreage bases established?

The Omnibus Budget Reconciliation Act of 1982 requires that the bases for wheat, feed grains, and rice for 1983 be the same as those established for the farm for 1982, adjusted to reflect crop rotations and other factors the Secretary determines should be considered in determining a fair and equitable base.

The upland cotton acreage bases for farms that participated in the 1982 cotton program or reported zero planted acreage will be the same as the 1982 base. For other cotton farms, the base will be the average of the cotton acreage on the farm in 1981 and 1982.

10 If a farm is participating in the program for a commodity, but the acreage base is underplanted, what happens to the 1984 acreage base?

The farm's 1984 acreage base will not be reduced due to under planting in 1983.

11 What are the percentages of the farm yield under the 10-30 PIK diversion?

Wheat is 95 percent. Corn, grain sorghum, upland cotton and rice are all 80 percent.

12 Why is the wheat PIK set at 95 percent of the farm yield while the PIK for other commodities is set at 80 percent?

Wheat is the only fall-seeded crop eligible for PIK. These producers have already incurred substantial costs to plant the crop, which is not generally true for spring-seeded crops. While some wheat is spring-seeded, it would be impractible to have different percentages for fall and spring-seeded wheat since both may be planted in the same area.

13 Why were barley and oats not included in the PIK program?

*— A For barley, the ratio of ending stocks to utilization is not as severely out of line with historical levels as it is with corn and sorghum. We also believe the announced acreage reduction/cash land diversion program will help limit the supply of barley. Barley prices can also be expected to benefit from the anticipated tightening of feed grain supplies.

B For oats, as for barley, the level of carryover stocks relative to utilization does not significantly exceed historical rates. In addition, the announced acreage reduction/cash land diversion program is expected to keep oat stocks at an acceptable level. —*

14 **What must be done to enroll in the PIK program?**

The farm operator will be required to enroll the farm in the acreage
*-- reduction program (ARP) andfor wheat, feed grains, and rice land diversion
programs and sign a contract with the county ASCS office agreeing to --*
reduce the acres of the crops for harvest by the percent desired above the
previously announced program.

15 **What can the farm operator sign up for under the PIK program?**

For PIK diversion, the farm operator may sign up to divert a part of the crop acreage base (any amount that is no less that 10 percent or more than 30 percent of the crop acreage base) or bid to divert the whole crop acreage base.

16 **Does the farm operator have to sign up for both the 10-30 percent PIK diversion and the whole base bid?**

No. The farm operator may sign up for either one or both.

17 **Must the operator decide the amount of PIK diversion at sign up?**

Yes, the operator must determine the amount which will become part of the PIK contract and will determine the maximum permitted planted acreage.

18 **What does the bid consist of under the whole base PIK diversion?**

The operator offers to reduce the planted acreage of the crop to zero and devote an acreage equal to the acreage base for the crop to approved conservation uses. The operator bids by specifying the percent of the farm program yield per acre that is acceptable as compensation for participation. If accepted, the bid applies on the total PIK acreage diverted.

19 **Is there a limit on what may be bid?**

The operator may bid any amount. However, the county ASC committee will not accept bids that exceed the per acre offer rate for the PIK diversion.

20 **Can the bid be changed?**

Any bid received may be changed or withdrawn by the operator up to the end of signup.

21 **How does the operator make a bid?**

The operator will bid by completing the PIK contract which includes the bid amount. Bids will be submitted as sealed bids through March 11, 1983.

22 **What is the procedure for accepting bids?**

In an open public meeting on March 18, the county ASC committee will open all bids and arrange the bids from the lowest percentage of the effective yield to the highest. If the county is authorized to accept bids, the bid with the lowest percentage will be accepted first. Ties will be settled by taking the first bid received in the county ASCS office (by date and time). Any remaining ties, or ties in counties that conduct signup by appointment, will be broken by lottery.

23 **Is there a county limit on the acreage that can be accepted under the bid?**

The number of whole base bids accepted will depend on the level of signup in
the 10-30 percent PIK, the supply-demand situation for each commodity, con-
*-- ditions in the local area, and other relevant factors. However, in no case --*
would the amount diverted exceed 50 percent of the total base in the county.
CCC reserves the right to reject any or all bids.

24 **When does the contract take effect for whole base PIK?**

Contracts submitted by the farm operator to the county ASCS office by March 11 will take effect when accepted by the county ASC committee on March 18.

25 **Who must sign the contract?**

*-- The farm operator is responsible for submitting the contract by no later

than March 11; however all producers must sign by no later than March 17. The county committee may for 10-30 percent PIK permit a later signature in hardship cases. After all signatures are obtained and the contract is signed by the county committee it becomes final and binding on both Commodity Credit Corporation (CCC) and the producers. --*

26 Will tenants and sharecroppers be protected?

A contract will not be accepted if it is known that a landlord or operator has not afforded the tenants or sharecroppers, if any, the opportunity to participate. This includes reducing the number of tenants or sharecroppers in anticipation of or because of participation in the program. (This is the same protection offered under the acreage reduction and paid land diversion programs.)

27 What will the operator agree to in the contract?

*-- A For the 10-30 percent PIK diversion, the operator must limit the final acreage to an agreed upon amount and devote the required eligible acreage to conservation uses.

B For an accepted whole base PIK bid, the operator must agree to reduce the acres of the crop for harvest to zero and to devote the required eligible acreage to conservation uses. --*

28 What will happen if the farm does not comply or fails to comply fully with terms and conditions of the contract?

The normal failure to fully comply provisions will apply.

A Producers who attempted in good faith to comply with the contract within allowable tolerances will not be affected.

B Producers who attempted to comply with the contract in good faith but exceed the tolerance will have program benefits reduced proportionately.

*-- C For violation of the contract provisions, producers who did not attempt --* in good faith to comply will be declared ineligible for PIK program benefits for the crop. Such producers will also be required to pay liquidated damages.

29 Can an operator offer or bid only one base or must all bases be considered?

Cross compliance will not apply and each base will stand on its own with one exception. Bases for corn and grain sorghum are combined to afford producers additional flexibility and they must be considered in total. The same offer and bid rate will apply to both bases.

30 Can an operator offer or bid only the base on one farm or must all farms operated be considered?

Offsetting compliance will not apply. Each farm will be considered individually.

31 What happens if a farm change requiring a reconstitution occurs after a PIK contract is filed?

*-- A If the reconstitution is initiated during the signup period, PIK contracts must be cancelled for crops for which the reconstitution is effective for the current year. The farm operator will be given an opportunity before close of signup to enroll the resulting farm in the PIK program for those crops.

B If the reconstitution is initiated after signup closes, the reconstitution will not be effective for the current year for any crop for which a PIK contract is in effect. --*

32 What acreage will be eligible to be designated as conservation use acreage under PIK?

The current requirements for the acreage reduction program conservation use acreage will apply except for summer fallow producers. The PIK program compensates the producer for the commodity that would have been produced in 1983; therefore, to achieve the necessary reduction in production, summer
*-- fallow producers must designate for the PIK acres land that would normally be

devoted to the production of small grain or row crops in 1983. This rule does not apply to the increased conservation use acreage requirement computed by considering the PIK acres as planted acres. --*

33 Can the conservation use acreage be grazed or harvested?

The acreage can be grazed except during the six principal growing months. This 6-month period between February 28 through October 31 will be determined by the local ASC committee. Mechanical harvesting of any crop will be prohibited. There are exceptions to these rules for winter wheat planted *-- prior to the announcement of the PIK program (see question 34). --*

34 What about the wheat producers that have already planted their 1983 crop?

These producers who participate in PIK must also limit their acreage for harvest; however, to be fair and equitable, they will be permitted to graze the acreage or to cut the acreage for hay. So that a grain crop is not produced, the acreage must be substantially destroyed by the deadline established for the county (see question 85). In addition, if approved by the State ASC committee with concurrence of the State Conservationist for the Soil Conservation Service, the stubble may be eligible cover.

35 Specifically, how much conservation use acreage (CUA) is required under different situations?

The required CUA acreage for a farm with a 100 acre base for each commodity will be as follows:

Participates in the additional PIK diversion at 30% of base with maximum planted

| | | CUA | | | | |
|---|---|---|---|---|---|---|
| Commodity | Permitted Ac. | ARP | Pd.Div. | PIK | Total | Total Planted and CUA |
| *--Corn/sorghum | 50 | 10.0 | 10.0 | 30.0 | 50.0 | 100.0 |
| Wheat | 50 | 15.0 | 5.0 | 30.0 | 50.0 | 100.0 |
| Cotton | 50 | 20.0 | 0 1/ | 30.0 | 50.0 | 100.0 |
| Cotton | 50 | 18.8 | 5.0 1/ | 25.0 | 48.8 | 98.8 |
| Rice | 50 | 15.0 | 5.0 | 30.0 | 50.0 | 100.0 |

1/ For PIK participation the cotton paid diversion is optional up to 5 percent of the cotton acreage base; however, the sum of the PIK acres plus the paid diversion acres cannot exceed 30 percent of the base.

Participates in Whole Base Bid phase of PIK

| | | CUA | | | |
|---|---|---|---|---|---|
| Commodity | Permitted Ac. | ARP | Pd.Div. | PIK | Total |
| Corn/sorghum | 0 | 0 | 10.0 | 90.0 | 100.0 |
| Wheat | 0 | 0 | 5.0 | 95.0 | 100.0 |
| Cotton | 0 | 0 | 0 2/ | 100.0 | 100.0 |
| Cotton | 0 | 0 | 5.0 2/ | 95.0 | 100.0 |
| Rice | 0 | 0 | 5.0 | 95.0 | 100.0 |

2/ Cotton paid diversion is optional up to 5 percent of the cotton acreage base; however, the sum of the PIK acres plus the paid diversion acres cannot exceed the base. --*

- o -

36 What about producers that have already accepted advance deficiency or diversion payments?

In cases where the producer diverts all of the base or substantially reduces planted acreage, a refund may be required. This will be determined when final payments are computed. No interest charges would apply on any refunds for PIK participation; however, refunds not made within 30 days from the request will be subject to late payment charges.

37 What is the method of compensation under the PIK program?

The producer will have the right to receive bushels or pounds of a specific commodity--the commodity for which acreage was diverted. However, CCC reserves the right to substitute, on a bushel for bushel basis, corn for grain sorghum.

38 When will the PIK commodities be made available?

The PIK availability date will be determined and announced by the Secretary for each production area based on the normal harvest for the crop in the area.

39 How is the amount computed?

By multiplying the established percentage (offer or bid rate) times the farm program yield, times the acres diverted from production of the crop under the PIK program.

40 Does the payment limitation apply to the PIK program?

No, the payment limitation provisions do not apply to payment-in-kind under the program. We believe that Congress imposed the limitation to prevent excessive cash payments out of the Treasury to any one farmer. We do not believe Congress intended to limit the use of commodities owned by the Commodity Credit Corporation in a program to control production and reduce the cost of farm programs.

41 How does the PIK program impact agribusinesses?

The limit on the amount of crop acreage base in a county that can be withdrawn from production is intended to minimize adverse effects. One of the objectives of the program is to improve the farm economy benefiting all agribusiness in the long run from an effective program.

42 Are the 10-30 percent PIK diversion and the whole base bid the only ways a producer can receive PIK compensation?

No. Under the previously announced acreage reduction and land diversion programs, there is a $50,000 limitation on total 1983 payments to a producer. Producers whose payments are reduced because of the limitation may request a proportional reduction in their total conservation use acreage requirement. Under the PIK program, these producers will be able to forego this reduction for special PIK compensation if the farm is participating in the PIK program for the crop. The compensation is 50 percent of the farm's program yield for the applicable commodity times the conservation use acreage that would have been reduced for that crop.

43 How can the PIK be received?

A Producers with outstanding CCC loans (regular and FOR) must allow CCC to use loan collateral for their PIK payment.

*— B Generally, producers with no outstanding CCC loans or with loans where the outstanding loan amount is less than the PIK amount will receive the PIK by acquiring the commodity from an approved warehouse. In some instances, however, these producers may be required at CCC's option, to obtain a 1983 CCC regular loan to use for their PIK payment. This option will be used sparingly. —*

44 Can a producer designate a specific class of a commodity for PIK purposes?

*— No. The PIK will be in terms of Number 1 wheat except Number 2 for soft red winter wheat, Number 2 corn, Number 2 sorghum, and for cotton and rice the historical area average quality. —*

45 When can a producer receive the PIK?

PIK must be received during the 3-month period beginning on the PIK availability date.

46 If a producer has a CCC price support loan, does the producer have to make the loan collateral available to CCC?

Generally yes, if the loan on the applicable commodity is outstanding on March 11. However, this does not apply if the outstanding loan was obtained from another county or application for FOR was applied for after
*— January 11. In addition, at CCC's option, the producer may be required to obtain a 1983 loan for the amount needed for PIK. —*

47 Will a cotton or rice producer who is an active member of a marketing cooperative be required to receive the PIK through the cooperative that has an outstanding loan for the commodity?

Yes, unless the producer has an individual loan on the same commodity through the county office. Wheat and feed grain producers will not receive PIK through cooperatives.

48 What will the cotton or rice co-ops do with the PIK?

The co-op must permit CCC to use the loan collateral for PIK purposes. CCC will provide the co-op with the quantity of the PIK that exceeds the co-ops outstanding price support loans.

49 If a producer's regular or reserve loan was obtained on grain the producer acquired and substituted for eligible grain, must the loan be liquidated even though it is stored in some other county?

Yes. If the loan was obtained in the county where the PIK is issued.

50 Can a PIK participant redeem a CCC loan through normal repayment provisions?

Producers with loans outstanding as of March 11 may not redeem or forfeit loan quantities that would result in an outstanding loan amount less than their PIK.

51 Since a PIK participant cannot forfeit a loan after March 11, who pays the storage until the PIK is received?

CCC will pay storage from loan maturity up to 5 months following beginning of PIK availability.

52 If Form CCC-813, Release of Warehouse Receipts and Redemption Agreement
*-- for cotton is on file in the county office on or before March 11, must the producer make the cotton available to CCC? --*

No. The producer has sold his equity in the cotton. The buyer has agreed to redeem the cotton and CCC is obligated not to permit redemption by anyone other than the buyer. See question 108.

53 What are the charges on a loan liquidated to make the commodity available to CCC?

*-- CCC will fully compensate the producer for interest and handling charges assessed on the quantity which the producer must make available to CCC. However, CCC may require the producer to refund transportation paid by CCC in some cases where the producer requested the relocation of grain. This does not include compression charges for cotton unless the cotton was reconcentrated as directed by CCC. --*

54 How will CCC determine the quantity of the loan commodity a producer must make available to CCC?

Quantities must be made available on a bushel for bushel or pound for pound basis unless the loan was made on a grade or quality different from the base grade or quality used to determine the PIK. In that case the quantity is adjusted to reflect that difference.

55 How will the quantity be adjusted?

Assume a producer has available a PIK of 1000 bushels of No. 2 corn. The producer's warehouse-stored loan was made on 1982-crop No. 3 corn that had 15.5 percent moisture; a test weight of 52 pounds; and broken kernels and foreign material of 4 percent. The loan rate of $2.55 was reduced by 4 cents to $2.51 because of the discounts. The base loan rate was 1.016 of the discounted loan rate (2.55 divided by 2.51 = 1.016 rounded to 3 decimal places). The 1000 bushel PIK of NO. 2 corn will equal 1,016 bushels of the
*-- discounted corn. (1000 bushels X 1.016). (In this example, 1982 loan differentials were used; however, 1983 loan differentials will be used.) --*

-- 56 Who is responsible for storage on the PIK commodity?

CCC will pay storage for up to 5 months after PIK availability period begins. The producer will be responsible for storage and warehouse charges following the availability period or earlier if the producer takes title to the commodity before the end of the availability period.

57 What storage rate will CCC pay PIK participants?

Storage payments for regular loan or FOR shall be issued at the following rates:

| Commodity | Annual Rate | Daily Rate |
|---|---|---|
| Wheat, Corn | $.265 bu. | $.000726 bu. |
| Sorghum | $.4732 cwt. | $.001296 cwt. |
| Rice | $.85 cwt. | $.002329 cwt. |
| Cotton | (The rate specified in the schedule of rates for the applicable CSA warehouse where the cotton is stored). | |

Storage payments for CCC inventory commodities shall be paid to the warehouse by CCC at the warehouse's UGSA, URSA, or CSA rate.

58 What happens to storage earning on FOR loans that will be liquidated?

Producers will continue to earn FOR storage until the loan is liquidated
*-- or for a maximum of 5 months beyond the PIK availability date. In addition, producers with farm-stored FOR loans will receive additional compensation of 15.5 cents per bushel (equal to 7 months storage) with respect to the quantity redeemed. However, all producers will be required to refund all unearned storage. This compensation for farm-stored FOR will be received by the producer as part of the CCC purchase price for the commodity to take into account long term storage commitments which the producer may have undertaken. --*

59 Will producers who must liquidate farm-stored FOR loans receive any additional compensation?

Yes, producers will earn an additional payment equal to 7 months storage.

60 Why do farm-stored FOR participants receive additional compensation?

Some producers built farm storage structures to store the FOR grain. To require early liquidation of the FOR loan may cause financial hardship unless some additional assistance is granted.

61 Why not assist warehouse-stored FOR participants?

Producers with warehouse-stored loans have not invested in storage facilities. They will continue to earn storage through the date of liquidation, not to exceed 5 months. The producer should receive a refund from the warehouseman for unused storage.

62 If after using the PIK the producer has a partial bin of grain or a partial warehouse receipt remaining, can the balance be forfeited or delivered?

If the producer must liquidate the loan on 75 percent of the quantity represented in an individual bin or warehouse receipt for PIK purposes, the
*-- balance of the quantity pledged as collateral for loan which is remaining in the bin or receipt, not to exceed 5,000 bushels (or the equivalent number of --*
pounds) of the commodity, may be sold to CCC.

63 Can producers repay the balance of a warehouse receipt or bin?

The balance on a regular loan can be repaid. However, the balance on a FOR loan cannot be repaid without early redemption charges, unless it is a mature loan.

64 Will producers continue to be permitted to place grain in FOR?

Yes, since they were assured of the option as a condition for program participation. However, the final date for reserve entry will be the commodity's applicable final loan availability date (March 31 for wheat and May 31 for corn and sorghum).

65 Will all FOR grain be used for PIK?

No, only grain in FOR or with FOR application on file on or before January 11 will be eligible to be used for PIK.

66 In cases where cotton producers have more than one crop year production under loan, will they have a choice of which crop year loan to liquidate?

No. While grain producers will have the choice of which crop year loan to liquidate, cotton producers must liquidate the oldest crop year loan. If the oldest crop year production is under several loans, the producer may choose the applicable loan. Once the loan is selected, the bales will be liquidated in the order they appear on the cotton warehouse receipt listing form (CCC Cotton A-1).

67 For cotton, the PIK will be expressed in pounds which in most cases will not correspond to whole bales. How will this be resolved?

A cotton producer will receive the full bale.

68 The current cotton program provisions provide a set-off for cotton research and promotion. Since production under this PIK program may be substantially reduced, what affect, if any, will this have on the research and promotion fund?

There will be no adverse impact on the research and promotion fund. Any cotton received under the PIK program will be subject to the research and promotion fee. The set-off will be made by the first buyer when the producer markets the PIK cotton.

*--69 Can a PIK recipient of wheat and feed grain, who is provided the commodity by CCC (not out of FOR or loan) be guaranteed availability at--* the warehouse of his or her choice?

No, although the producer will, during signup, indicate a preferred approved warehouse delivery point in the producer's county or in an adjacent county.

*--70 If for wheat, and feed grains, CCC is unable to provide the commodity at the producer's preferred warehouse, where will the commodity be--* delivered?

CCC will use the following order of preference in selecting approved houses:

A. In producer's own county.
B. In adjoining county.
C. In nearest house "in line" to subterminal or terminal.

71 What options will a producer have with commodity obtained from CCC with the PIK?

Producers may keep the commodity or dispose of the commodity in any manner.

72 How will the warehouse know who has CCC commodities coming, and how much?

Each producer will receive a "letter of entitlement". The warehouseman will receive a courtesy copy of the producer's letter. Warehousemen will also receive open loading orders from CCC listing total quantities to be made available.

73 If a producer elects to withdraw the PIK from warehouse storage, is the producer responsible for loadout charges?

*-- Yes, any loadout and/or transportation charges after the producer takes title to the PIK will be borne by the producer. --*

74 How will a warehouse be reimbursed by CCC for storage earned on PIK commodities?

The warehouseman will submit an invoice to CCC along with a copy of producer's letter of entitlement to receive the applicable storage payment.

75 What will be done to reduce the market impact caused by the release of FOR, loan, and CCC inventory to use the PIK?

Commodities will be released to producers after the PIK availability date. The southern areas where harvest occurs first will receive the PIK entitlement first. Additional areas will receive PIK entitlements as harvest normally progresses. It should be noted that less of a commodity will be released through PIK than would have been harvested in the absence of PIK. The impact is further minimized by CCC agreeing to pay storage costs for up to 5 months if the producer holds the PIK commodity off the market.

76 We understand the FCIC is offering an incentive to PIK program participants. Why?

FCIC wants to encourage program participants to continue their insurance coverage and this is a way to attract new producers to the program.

77 How does the FCIC incentive work?

Participating in the PIK program at a level at least 10% but less than 20% increases the yield guarantee by 6%; participating between 20% but less than 30% will result in a guarantee increase of 8%; participating at the maximum of 30% will increase the yield guarantee by 10%.

78 How does an insured farmer become eligible for the yield guarantee increase?

No action will be required by the program participant. All policies will be issued at standard rates and coverages. In the event of loss, the producer's policy guarantee will be adjusted according to his verified ASCS records of participation in PIK.

79 Will there be extra cost to the producer for the increased guarantee?

No, the premium rate per acre will be the same as with the standard coverage.

80 How can FCIC offer these higher yield guarantees without a corresponding increase in premium rates?

These yield coverage increases recognize the probability of increased per acre yields on the remaining acreage of program participants. The harvested acreage is expected to exceed the average production potential of the entire farm. FCIC anticipates more timely operations and increased inputs per acre on the reduced acreage planted. FCIC can offer these higher guarantees without a corresponding rise in premium rates because the risk of loss is reduced.

81 Will FCIC accept revised acreage reports on insured winter wheat destroyed to comply with PIK?

Yes, until March 11. The PIK participant must identify the acreage to be destroyed on an ASCS map attached to the revised acreage report. No premium will be charged for destroyed acreage which is timely reported. Producers submitting bids for whole farm participation may submit a zero acreage report which is conditional upon acceptance of their bid by ASCS.

82 Why not accept revised acreage reports until PIK bids are awarded?

Any extension beyond March 11 would increase FCIC's risk of loss without offsetting premium income to unacceptable levels. One of the major causes of winter wheat loss is winterkill which cannot be assessed until the crop emerges from the dormant stage in early spring. The risk of excess moisture and flood loss increases as time passes. Free insurance coverage on destroyed acreage until March 11 should be an additional incentive to participate in PIK.

83 How will winter wheat producers be informed of the proper procedure for revising their acreage reports?

FCIC will send a letter of notification to each insured producer of winter wheat stating exactly how to revise acreage reports and the deadline for doing so.

84 How can the producer obtain additional information?

Farmers will be able to get full details on the PIK program from their local county ASCS office.

*--85 What are the rules for haying and grazing wheat acreage that was planted before the PIK was announced?

A Since the PIK program for wheat was announced after much wheat acreage had already been planted, wheat acreage planted before January 12, 1983, may be designated to meet any conservation use acreage requirement (acreage reduction, paid diversion, or PIK conservation use acreage) for any program PROVIDED the farm is participating in the PIK program for any crop. Such acreage so designated may be grazed without regard to the 6-month nongrazing period and hayed before the disposal deadline announced for the county. This acreage must not be overgrazed so as to subject the land to erosion.

B If the wheat acreage is overseeded after January 11 or replanted to another cover crop, the haying and grazing provision in subparagraph A above does not apply following the overseeded or replanting of the wheat acreage (see question 33).

86 Can a producer obtain a regular loan up to the final loan availability date and still redeem the quantity of the crop pledged as security for the loan to the extent of the PIK requirements?

Yes.

87 How long will a PIK participant be allowed to redeem or forfeit a CCC loan through the normal repayment and forfeiture provisions?

Up through March 11, 1983. After March 11, participants will not be allowed to redeem or forfeit loans to the extent of their PIK requirements.

88 Will a producer who is receiving his PIK commodity from CCC stocks also receive the 5-month storage payment from CCC?

No. CCC will pay the 5-month storage to the storing warehouse up to the date the producer redeems the PIK entitlement not to exceed the 5-month availability period. --*

---

*-- 89 When will a producer who redeems a regular loan to the extent of the PIK requirements receive storage payments?

At the time of redemption or at the end of the 5-month availability period, whichever comes first.

90 How long will CCC issue the annual FOR storage payment to producers?

CCC will issue FOR storage payments to reserve producers in the normal manner until the beginning of the commodity's applicable PIK availability period.

91 Will CCC loans maturing on or before March 11 be available for redemption for PIK purposes?

Producers with loans maturing on or before March 11 may request an extension of the maturity date, for the quantity needed to satisfy the PIK. Producers will earn storage at the rate applicable to the PIK commodity for the period beginning March 12 and ending on the earlier of the date of redemption or the end of the 5-month PIK availability period.

92 Will CCC loans maturing after March 11 and before the beginning PIK availability period be eligible for PIK?

Yes, loans maturing after March 11 will be automatically extended for the quantity needed to satisfy the PIK to the end of the 5-month PIK availability period. Producers will earn storage payments at the rate applicable to the PIK commodity for the period beginning with the date the loan would have otherwise matured and ending on the earlier of the date of redemption or the end of the 5-month PIK availability period.

93 Can a producer feeder who has a repayment schedule established on a loan continue the schedule after March 11?

No. A producer feeder will not be permitted to redeem the quantity of the loan needed to satisfy the PIK requirements between March 11 and the PIK availability date.

94 Can the producer use the PIK in small amounts?

Except for cotton producers who receive their PIK from CCC inventory must accept delivery of the total PIK quantity. However, producers who use the PIK to repay outstanding loans may liquidate partial loan quantities. Producers liquidating warehouse stored loans must liquidate all of a warehouse receipt.

95 Can producers convert their current reserve loans into Reserve V?

Yes, however, producers will not be permitted to convert existing reserve agreements to Reserve V after the applicable deadline for entry into the reserve (March 31 for wheat, May 31 for corn and sorghum). --*

*--96 Will producers converting existing reserve loans to Reserve V after January 11, 1983, be required to liquidate quantities of the commodity pledged as collateral for the loans to the extent of their PIK requirements?

Yes.

97 Will producers converting existing regular 9-month loans to Reserve V after January 11, 1983, be permitted to liquidate quantities of the commodity pledged as collateral for the loans to the extent of their PIK requirements?

No.

98 Can a producer convert a purchase agreement to a:

A Regular loan after March 11 and use the loan for PIK purposes?

Yes, provided the purchase agreement is converted to a regular loan within the loan availability period (March 31 for wheat and May 31 for corn and sorghum).

B Reserve loan after March 11 and use the loan for PIK purposes?

No. While a producer may convert the purchase agreement to a reserve loan before the reserve deadline entry, the new reserve loan may not be used for PIK purposes.

99 Will the 1983 wheat and feed grain crops be eligible for the 1983 reserve?

Yes, 1983 wheat and feed grain crops will be eligible for the reserve. However, rather than immediate entry as in the past, entry into the reserve will be allowed only after the 9-month regular loan period. Entry level for all commodities will be at the regular loan rate. Storage payment rates will be retained at the 1982 level.

100 Will protein be taken into consideration for purposes of quality adjustments for wheat?

Yes. If the loan value received by the producer was increased to reflect protein content, the quantity the producer is required to liquidate with PIK will be reduced to reflect the increased loan value.

101 Can producers assign the quantities of the commodity which they are to receive as payment-in-kind.

Yes. --*

*-- 102 Are there the same limitations on assignments of PIK as there are on cash payments?

No. Cash payments cannot be assigned to pay a preexisting indebtedness. Assigned cash payments must be to cover advances made to finance the current year crop, or related purposes. However, since PIK is not a cash payment, these limitations will not apply. A separate assignment form will be provided covering PIK, which contains the terms and conditions for such assignments.

103 Since the PIK amount can be assigned, can the storage of up to 5 months or the additional compensation to producers with farm-stored FOR loans equal to 7 months storage be assigned.

No.

104 For cotton if a producer has both 1981 and 1982-crop cotton loans that exceed the PIK quantity, can the producer redeem either loan?

Yes. The only restriction is that a quantity of the commodity equal to the quantity of the commodity which the PIK producer is entitled to receive for PIK purposes must remain under loan until the commodity is to be made available to CCC.

105 For cotton if a producer participating in the PIK program has both 1982 and 1981-crop cotton loans, can the producer forfeit 1981-crop loans?

No, not for the quantity needed for PIK purposes. The maturity date for the oldest crop loan has been extended to the end of the availability period for the quantity needed for PIK.

106 Will storage payments be made on the cotton described in the above question?

Yes, CCC will pay all storage costs but will not pay compression or outhandling charges.

107 Will CCC resample and/or reweigh the cotton which producers will receive as PIK?

No. As for other commodities, the cotton will be considered to be the same grade and weight as when it was placed under loan. Because of the limited time available, it would be impractical to resample and reweigh. --*

*-- 108 Under what conditions will a CCC-813 be accepted for cotton?

A CCC-813 may be filed anytime through March 11 for any quantity of cotton. After March 11, a CCC-813 may be filed only for an amount of cotton in excess of the amount of cotton that the producer will earn in the county under a PIK contract.

109 If a cotton or rice producer does not have a loan, or has a loan but the quantity is smaller than the PIK the producer will earn in the county, will the producer be able to designate a preferred warehouse?

No, questions 69 and 70 apply only to grain. Cotton and rice producers will receive the commodity where stored.

110 How will CCC determine the location of the cotton or rice the producer will receive?

To the extent practical, CCC will apply three rules to determine the cotton or rice to transfer to an individual producer:

A The total quantity earned on a farm will be stored in one location.

B The quantity will be stored in the local area, if possible.

C The quality will be similar to that normally produced in the local area. For example, if there is insufficient cotton now in CCC stocks in California, California producers would probably receive cotton stored in the Memphis area rather than Texas.

111 If the producer is to receive stocks from CCC for PIK, will the producer be responsible for any transportation charges?

CCC will give title to the commodity to the producer at the designated warehouse free of any charges. Any loadout and/or transportation charges thereafter will be borne by the producer.

112 What happens if the producer fails to use the letter of entitlement at the end of the 5-month availability period?

Producers will receive title to the commodity at the end of the last day of the availability period as follows:

A For producers with outstanding price support loans, CCC will select the loans that are redeemed and made available to CCC for use as PIK compensation.

B For other producers, a warehouse receipt will be issued.--*

*-- 113 Why are producers that do not have a sufficient outstanding loan quantity being required at CCC's option to obtain a 1983 crop year price support loan?

This option would be used very sparingly and only in cases where CCC does not have an inventory of the commodity available. Use of the option would generally benefit both CCC and the producer.

114 If a county is limited to accepting 500 acres in whole base bids and has already accepted 480 acres:

A Can a bid of 50 acres be accepted?

No.

B Can the county committee skip over bids until they reach a bid of 20 acres or less?

No. Bids must be accepted in order with no skipping.

115 How will county ASC committees enforce the protection of tenants and sharecroppers?

To ward off problems, county ASC committees will review the 10-30 percent of the base contracts as time permits. Due to the time limitation on approving whole base bids, county ASC committees cannot delay approving a contract; however, the operator and producers have agreed in the contract not to violate the tenants and sharecroppers provisions.

116 What happens if a landlord removes a tenant or farm operator for the purpose of receiving PIK benefits.

This will not be permitted. Compliance with the landlord-tenant provisions is the responsibility of the persons signing the contract. If time permits the contract to be reviewed, the landlord will be requested to obtain another tenant or operator. If it is later found that the landlord-tenant provisions have not complied with, the terms and conditions of the contract have not been met and liquidated damages will apply.

117 If the tenant or operator leaves voluntarily, will the landlord be required to find replacements?

No; however, statements made to this effect will be confirmed. If time permits the county ASC committee will confirm before the contract is approved. --*

*--118 The contract requires the operator to report crop acreages and conservation use acreage by the final reporting date for the county. When is this?

Final reporting dates for all crops vary by State and in some instances, by county. These dates are available at local county ASCS offices. The final reporting date for conservation use acreage (CUA) is the latest reporting date for any of the applicable program crops having a CUA requirement. An EXCEPTION to this is that CUA on which wheat was planted before January 12, 1983, must be reported by the final date for reporting wheat.

119 How is the cotton paid diversion computed?

A For PIK, the operator may divert an acreage up to 5 percent of the base; however:

1 For whole base PIK, the sum of the PIK acres and the paid diversion acres cannot exceed the base.

2 For the 10-30 percent PIK, the sum of the PIK acres and the paid diversion acres cannot exceed 30 percent of the base.

B For producers not enrolled in PIK, the paid diversion is 0.0667 times the planted acres not to exceed the smaller of:

1 5 percent of the base.

2 The difference between the permitted acreage and the planted acreage.

120 Why was the required conservation use for PIK increased to require the operator to designate additional unpaid acreage (ARP) for conservation use?

In the original computation, the sum of the conservation use acreage, the permitted acreage, the paid land diversion acreage and the PIK acreage was less than the crop acreage base. The acreage difference was free to be planted to other crops which tended to defeat the purpose of our other programs and was not within our intent. For these reasons, the ARP conservation use acreage was redefined by considering the PIK acres as planted acres of the crop. This leaves the conservation use requirement of the regular program unchanged by the PIK program.

121 How does the special PIK compensation work?

Assume the producer is owner-operator of one farm with a 2000 acre corn base and 100 bushel yield. Assume, for example, that the farm's total projected 1983 deficiency and diversion payments, after allowing for participation in the 10-30 percent of base PIK diversion, equal $100,000 and the conservation use acreage under the acreage reduction and land diversion programs equals 400 acres. The producer can choose between having a 50 percent (200 acre) reduction in conservation use acreage (since the payments will be reduced by 30 percent) or forgoing the reduction to receive PIK for the 200 acres at the rate of 50 percent of the corn yield. --*

*--122 Does it make any difference under the special PIK program whether the farm is in the 10-30 or the whole base PIK program for the crop?

No. Participating in the whole base would reduce the projected deficiency payments for the crop to zero, but the producer could still participate in the special program if the producer's total payments are reduced due to the payment limitation.

123 If the farm has more than one crop, can the producer choose to participate in the special PIK on a crop-by-crop basis?

Yes, so long as the crop is in the PIK program. If the producer participates for more than one crop, the acreage for compensation for each crop will be in proportion to the original requirements.

124 Under the previously announced programs, a producer with more than one farm could allocate the reduction in conservation use acreage among farms, not to exceed the original requirement. Is this policy changed?

No.

125 Does this mean that producers who participate in the special PIK can receive PIK based on the farms to which they allocate the reduction?

Yes. Since producers have the right to allocate the reduction, they must receive the PIK based on the yields of the farm(s) to which the reduction is allocated.

126 Since the PIK acreage is being considered as planted acreage for purposes of computing the conservation use requirement under the acreage reduction program (ARP), is that acreage subject to reduction due to the application of payment limitation?

Yes. No distinction is made between the ARP computed on the planted acreage and the ARP computed on the PIK acreage for the purpose of the acreage reduction due to the application of the payment limitation provisions.

127 Is the PIK eligible for deficiency payments and/or loans?

No. To be eligible for deficiency payments, the commodity must have been planted in the current year and to be eligible for price support loan, the commodity must have been produced in the current year. PIK acreage does not meet either of these requirements.

128 How will proven yields for 1984 be determined for crops participating in the whole base PIK diversion?

The 1983 yield will be assigned by the county ASC committee taking into consideration the actual production from three similar farms in the areas. —*

---

*— 129 When and how will the additional compensation for producers with farm-stored FOR loans be determined?

A The amount of the additional compensation will be determined on the PIK availability date.

B Twelve months of advance storage was paid on the loan anniversary date. If, on the PIK availability date, the producer has unearned storage of at least 7 months, no additional disbursement will be made. If unearned storage is less than 7 months, an additional disbursement will be made to increase the unearned storage amount up to 7 months.

130 Will producers participating in PIK with regular or FOR loans be required to make additional loan quantities available to CCC for producers participating in PIK that do not have loans?

No. —*

## [Questions submitted by Senator Hatch to the Department of Agriculture and answers thereto:]

*Question 1.* Are you satisfied that the acreage being taken out of production will not be overgrazed?

Answer. Yes, ASC County Committees are charged with the responsibility of assuring that this will not occur.

*Question 2.* Why did the Department exclude barley from the PIK Program?

Answer. In designing the PIK Program, commodities were examined individually and aggregately. We determined that although imbalances existed for barley (as well as oats), the proportions of ending stocks to use were not as severely out of line with historical levels as for the other commodities. Therefore, it was felt that the combination of a PIK Program for corn, grain sorghum, wheat and rice and a 20 percent acreage reduction program and cash land diversion program for barley and oats, would be sufficient to improve the overall supply and demand balance and strengthen grain prices.

*Question 3.* Do you have any plans to re-evaluate this decision?

Answer. We will review the supply balance for all feed grains when formulating the 1984 program.

*Question 4.* When do you expect a decision from the IRS as to when the PIK payments will be taxable?

Answer. The Department of the Treasury with the Department of Agriculture's assistance, sought legislation that would make PIK commodities taxable when they are sold. Legislation that defers any income tax liability until the PIK commodities are sold or used has been passed by the Congress, and was signed by the President as Public Law 98-4 on March 11.

*Question 5.* Are you satisfied that the $50,000 payment limitation will not be applicable to this program.

Answer. The legislative history which surrounds Congressional consideration of payment limitations legislation during the last decade strongly supports the conclusion that Congress imposed the limitations to prevent excessive cash payments out of the Treasury to any one farmer. The extent of the savings to be realized by the Treasury was a major focus of the debate in both Houses of Congress prior to the enactment of the initial limitations on payments in 1970, and that focus has not been changed.

These budgetary concerns do not apply when payments are made in kind from surpluses owned by the Government or pledged as security for nonrecourse price support loans from the Government. This is especially so when, as in the PIK Program, the payments-in-kind are made as compensation for reduced production and will reduce the cost of farm programs by millions of dollars. We do not believe that Congress intended, in enacting the payment limitation, to limit the use of commodities owned by the Commodity Credit Corporation in this kind of program to control production and reduce program costs.

## [Questions submitted by Senator Boren to the Department of Agriculture and answers thereto:]

*Question 1.* We often speak of "getting supply more in line with demand." What quantity of supply would you consider to be "more in line with demand" for wheat, cotton, feed grains and rice? What would be the season average market price for each of these crops, assuming the level of carryover stocks you desire? At what point could we see such levels? Do you intend to offer programs that will achieve such carryover levels?

Answer. For wheat, a supply more in line with demand would result in just over 1 billion bushels in carryover stocks. This carryover level is based on 6.2 percent of world consumption, approximately the 10-year average for carryover levels versus world consumption. There is no way to achieve this carryover level in 1983 without huge government expenditures. This carryover level could be achieved by the end of the 1984 crop year given an increase in demand for wheat, especially exports. Prices could be at the target price level or higher if these stock levels were achieved.

In order to provide for unexpected shortfalls of production, a desirable level of corn carryover stocks would be 1.25 to 1.5 billion bushels, or roughly 15 to 20 percent of total use. Assuming normal weather conditions, this level of carryover could be achieved with the 1984 crop program. As with wheat, prices could be at the target price or higher if these stock levels were achieved.

Upland cotton supply and demand would be considered to be in equilibrium with a carryover stock level of about 4.0 million bales. Production for the 1983-84 marketing year, currently projected at 9.2 million bales, would succeed in reducing ending stocks from 8.0 million bales estimated for the current year to approximately 5.6 million bales. Thus, further reductions would be needed in 1984 cotton production to completely eliminate excessive supplies.

If 1983 rice plantings are reduced as much as the enrollment figures indicate, ending stocks in 1983-84 could drop by half of the season's estimated carryover stocks of 65 million cwts. Ending stock levels of 25-35 million cwts are generally considered adequate. Should this production materialize, a PIK Program will not likely be necessary for the 1984 crop. Farm prices for the 1983 crop are projected to range from $8.50 to $10.00 per cwt compared to a season average farm price of $8.00 per cwt for the 1982 crop.

*Question 2.* So far, there has been no mention of any plans for an acreage reduction program for the 1984 crops. Do you intend to offer an acreage reduction program in 1984 for any of the crops? Considering that even under the PIK Program we will not reduce supplies to a level sufficient to increase the market price for commodities, is there some reason why the farmers could not have some indication of your intent?

Answer. Development of Preliminary Regulatory Impact Analyses are now commencing or will be shortly for the 1984 crops of wheat, feed grains, rice and upland cotton. The impact analyses will include program alternatives, such as whether to announce an acreage reduction program and/or a land diversion program as well as a PIK Program. The analyses will also address farmer-owned reserve programs, target prices, loan rates and other program provisions. All these alternatives will be examined relative to the Administration's goals to provide adequate food, feed and fiber supplies, maintain adequate stocks, support farm income, combat inflation, minimize Government intervention and hold down Federal expenditures. Public comment will be solicited by press release and by means of a Notice of Proposed Determination published in the Federal Register. All efforts are being made for early program announcements, and prior to the respective statutory dates. These statutory announcements, dates are wheat—August 15; feed grains—November 15; rice—January 31; and upland cotton—November 1.

*Question 3.* In "the questions and answers" packet the department has been distributing, I noticed that one of the objectives of the PIK Program is to reduce farmer-owned reserve stocks to more desirable levels. What do you consider to be a desirable level? As far as increasing the market price is concerned, it would seem to me that our objective should be to decrease all stocks, but mainly free stocks that keep the market price down. Won't your efforts to lower the reserve levels result in lower prices in the first six months? In particular, won't we see a lower market price for wheat?

Answer. It is difficult to state what is a specific adequate reserve level. The objective of the reserve program is to isolate stocks from the market where supplies are excessive and release stocks when needed by the market. The PIK Program will fulfill the objective of reducing both total ending stocks and reserve totals. Feed grain prices have increased in recent months and, for 1983, are expected to increase 15 to 20 percent over 1982 prices.

A desirable level for the reserve wheat stocks, at this time, would be around 600 million bushels or less. However, the PIK Program was designed to reduce both reserve stocks as well as total ending stocks (compared to what they would have been without such a program). Prices for wheat have already increased in response to the PIK enrollment report. Prices are expected to average, for the 1983 crop, from $3.50 to $3.90 per bushel, higher than the $3.45 season average price expected for the 1982 crop.

*Question 4.* Another objective of the PIK Program is "to promote farm income." By the word "promote," do you mean increase farm income? What do you anticipate net farm income to be for 1983? For 1984?

Answer. The PIK Program improves the outlook for net farm income in 1983 and 1984. Although important factors such as weather, the strength of economic recovery here and abroad, and the percentage of farmers who will choose to take title to their PIK commodities in calendar 1983 remain uncertain, net farm income is expected to range from $18 to $22 billion this year. This income level compared with the $15 to $19 billion forecast for 1983 in December 1982 prior to the announcement of PIK and an expected net income level of $20.4 billion for calendar 1982. Net farm income is expected to increase again in 1984, perhaps ranging as much as $5 billion higher, as the prices farmers receive for their products improve and as their marketings increase.

*Question 5.* In the past, the Department has differentiated between the regular loan rate and the reserve loan rate. For example, for the 1982 crop of wheat, the regular loan was set at $3.55 per bushel and the reserve loan was set at $4.00 per bushel. Under your program for the 1983 crops, there is no distinction between the two types of loans. Indeed, you have lowered the reserve loan to the level of the regular 9 month loan. For wheat, the reserve loan and the regular 9 month loan is set at $3.65. For what reason did you lower the reserve loan? Doesn't the fact that the reserve loan is lower this year than last, essentially depreciate the value of the commodity?

Answer. The higher reserve loan rate for the 1982 crop was used to encourage farmers into the acreage reduction program. However, for the 1983 crop, the higher target price level ($4.30 per bushel versus $4.05 per bushel for 1982) is the attraction for high participation in the Acreage Reduction Program.

*Question 6.* Since it now appears unlikely that the Commodity Credit Corporation will have any stocks with which to pay wheat producers participating in the PIK Program, what are your plans for payment if not enough of the producers have outstanding loans? It is my understanding that some producers, with no outstanding loans, may be required by CCC to obtain a 1983 CCC regular loan to use for the PIK payment. How will this operate?

Answer. The plant-for-PIK option (use of 1983 loans) for producers in the PIK Program without outstanding loans will be used sparingly. We plan to obtain additional quantities of CCC grain through voluntary forfeitures of regular and reserve loans. Under the plant-for-PIK option, a producer will put 1983 production under loan. This loan will then be forfeited to CCC and the producer will keep the grain as payment for acreage idled under the PIK Program.

*Question 7.* According to the Department's figures, 1983-84 wheat ending stocks under the PIK Program will decline by only 3 million bushels, and that, as we all know, is only a drop in a very big bucket. It would seem that with such a tiny decrease in ending stocks, we will not see any improvement in the price of wheat for the near future. Indeed, since some of the grain that is now isolated from the market in the reserve is now going to be in free stocks, could we not see drastically reduced market prices in the short-run?

Answer With the large enrollment reported March 22, the wheat ending stocks will decrease an estimated 142 million bushels. In addition the markets have responded to this enrollment level with increased prices. Although free stocks will increase, the decrease in total ending stocks is valued as more important by the markets.

*Question 8.* Last fall, when we were discussing the PIK Program, I mentioned that I would like to see a minimum price set on the PIK commodity in order to protect the farmer from bearing all the risks of this program. Do you think we will see the price of wheat fall below $3.00 at any point in time during the next year? If so, how low do you estimate the price might be at any one point in time?

Answer. No, it does not seem likely that wheat prices will fall below $3.00. The season average price is estimated at between $3.50 to $3.90 per bushel which indicates prices should not go below about $3.35, and very likely may not go below $3.50 per bushel.

## [Questions submitted by Senator Pryor to the Department of Agriculture and answers thereto:]

*Question 1.* For quite some time I have been interested in the number of farmers who suffer losses due to the bankruptcy of grain elevators. Last year I introduced a bill which proposed that an insurance type fund be set up to compensate farmers for those losses. I plan to reintroduce the bill in a couple of weeks. Some of the losses have been enormous and in one small town in Arkansas the effect has been devastating.

(a) How many elevator bankruptcies have occurred during the last five years?

Answer (a). Attached is information which shows in detail the grain elevator liquidations for the past five years as well as the different commodities involved. A summary of the information regarding the numbers of liquidations follows: 1978, 2; 1979, 11; 1980, 14; 1981, 6; and 1982, 23.

(b) What amount has been lost? What is the most frequent commodity involved?

Answer (b). A summary of the attached information regarding costs follows: Estimated CCC net loss—1978, $9,908; 1979, $77,600; 1980, $5,640,766; 1981, $77,270; and 1982, $229,311.

About 60 percent of the claims cover corn exclusively and/or corn along with other grains (wheat, grain sorghum, soybeans).

About 30 percent of the claims cover wheat exclusively and/or wheat along with other grains (corn, oats, barley, soybeans, grain sorghum).

(c) Has any thought been given to allowing farmers who can verify their losses to participate in the PIK Program by receiving the commodity they lost or some other commodity? If this idea has not been considered what are the objections to it?

Answer (c). The Department strongly opposes the use of the PIK Program to farmers suffering grain losses in grain elevator bankruptcies. The reasons are:

(1) The problem of grain elevator bankruptcies requires a long-term solution. The PIK Program is designed to be self-limiting. The program will terminate once stocks are reduced to an acceptable level. For that reason, it is unworkable to try to tie the solution to the grain elevator bankruptcy problem to the PIK Program.

(2) In years of low stocks Commodity Credit Corporation (CCC) may not have the grain to compensate producers who lose grain in bankrupt elevators. CCC would then have to purchase the grain in the open market.

(3) Holders of CCC commodity loans are already protected to the extent of those loans because of their non-recourse nature.

(4) Protecting grain stored by non-participants in the price support programs would be inequitable to participants.

(5) There would be no incentive for producers to patronize sound, efficient warehouses.

(6) CCC budget exposure would be unlimited.

*Question 2.* If the Congress directed the Department of Agriculture to allow PIK commodities to be used to compensate farmers who have lost crops in elevator bankrupticies, how do you think the program should be constructed? What type of proof of loss should be required? What commodities should come under the plan?

Answer. Our position, as stated above, is that the proposal is not needed and any proposed legislation would be staunchly opposed by the Department.

*Question 3.* It is my understanding that under the PIK Program, as it is currently being operated, if a farmer takes a part of his land out of production to comply with PIK, he must leave that land out of production for the entire year, and cannot double crop even if the other crop is a commodity not covered by PIK (for example, soybeans). It seems that this damages those who have been double cropping because even though they might want to participate in the PIK Program for wheat, they would have to give up some of their soybean production even though that crop is not covered by the PIK Program. There is a provision in S. 36, the Cochran/Huddleston bill which I've cosponsored, that takes care of this double cropping situation. Is there any provision in the current PIK Program, or in the regulations to take care of these people?

Answer. Double-cropping is not permitted on conservation use acreage resulting from the acreage reduction, land diversion and PIK Program. This is consistent with sound land conservation practices. Conserving use acreage can be grazed except during the six principal growing months. The six-month period from February 28 through October 31 will be determined by the local ASC committee. Mechanical harvesting of any crop will be prohibited. Winter wheat producers who had planted their 1983 crop must also limit their acreage for harvest; however, they will be permitted to graze the acreage or to cut the acreage for hay.

*Question 4.* Is there going to be any provision in your program to guarantee a price for the commodities a producer receives under PIK?

Answer. There are no provisions to guarantee a price for PIK commodities.

*Question 5.* What provisions are contained in your program to take care of those who rent land? Will they be adequately protected?

Answer. A contract will not be accepted if it is known that a landlord or operator has not afforded the tenants and sharecroppers, if any, the opportunity to participate. This includes reducing the number of tenants and sharecroppers in anticipation of or because of participation in the program. This is the same protection offered under the acreage reduction and land diversion programs.

*Question 6.* What States have had grain elevator bankruptcies in the last five years?

Answer. Wisconsin, Indiana, Nebraska, Minnesota, Texas, Iowa, Oklahoma, Oregon, North Dakota, South Dakota, Washington, Kansas, North Carolina, Illinois, Missouri, Arkansas, Idaho, Montana, Wyoming, Ohio, Michigan and Louisiana.

## STATEMENT OF ROBERT M. FREDERICK, LEGISLATIVE DIRECTOR NATIONAL GRANGE, WASHINGTON, D.C.

I am Robert M. Frederick, Legislative Director of the National Grange. Our headquarters are located at 1616 H Street, N.W. Washington, D.C.

The National Grange, representing over 400,000 members in 41 states, wishes to thank you, Mr. Chairman, for holding additional hearings on a stocks reduction program that was only a concept at the earlier hearings you held in December 1982. We appreciate this opportunity to explore with you the Payment-In-Kind Program (PIK) recently announced by the Secretary of Agriculture John Block.

At the time of the December hearing, the Grange had some reservations about the PIK program. However, as a result of the hearing and several meetings with USDA staff, most, if not all, of our questions and reservations have been addressed. And I might add, so has our apprehensions about support for the PIK program. At this time, Mr. Chairman, the Grange is in strong support of the program as announced by the Secretary. We want it to work--it must work, if American farmers have any hopes for an improved economic future. There is nothing the matter with American agriculture that improved profits will not cure.

One of the keys to increased profits through improved prices is a reduction in the huge stocks that have been built-up over the last three years of good crops, coupled with decreased domestic and world demand. The PIK program has the potential of reducing stocks, curtailing production, enhancing prices, without increasing government costs, and most importantly--improving the profit picture of American farmers. PIK is not a panacea, it must be coupled with present farm programs if it is to have any chance of success.

I would like to point out to the committee that some people believe that the stocks themselves are depressing farm prices and are at the heart of the farm problem. In other words, get rid of the stocks and solve the problem. They say that stored grain depress the price because they hang over the market. A study conducted at Iowa State by Geoffrey Shepherd concluded, "For feed grains as a whole, the effect of withholding CCC stocks appears to be as great as if the CCC stocks were removed from the market." The stocks are of little concern to the daily market so long as they are not fed back into the market. Government stocks, farmer-owned reserves -- withdrawn and immobilized from the market by a price mechanism -- are not major depressing forces on prices. The depressing force is the supply that is still free on the market. Even with stocks gone, annual production can still give a market supply greater than the amount that has been free on the market in recent years.

In 1961 Earl O. Heady and Arnold Paulsen, Iowa State University, said this about reducing supply in a PIK program:

> "Under some circumstances, payments-in-kind could increase the supply on the market and thus act to further depress market prices. That is, they could cut down surplus stocks without depressing market prices only if the supply-management or production-control parts of the program were effective enough to 'make room' for the additional supply. There would be 'room' for the additional supply at present market prices only if current production were cut as much as the amount released from storage in 'grain payments' plus the amount that has recently been going into storage.

> Payment-in-kind could cut down surplus stocks and improve market prices only if production were cut more than the amount released from storage and more than the amount that has recently been going into storage."

(I have attached to our statement a copy of the Iowa paper.)

The key to improved farm prices is not just stock reduction through PIK, but reducing production to allow the PIK payments to enter the market without increasing free stocks. Therefore, compliance with the Reduced Acreage Program (RAP) and the recently announced PIK program is essential if production is to be reduced to allow the reserve stocks to enter the market without further depressing prices. Simply reducing stocks will not accomplish our goal. Some reduction in reserves is important in reducing storage cost of programs and to allow for entry of new production. The reserve program concept is to allow stocks to move in and out of the reserve at market prices that are profitable to producers. The failure of the farmer-owned reserve program to do that is not the fault of the build-up of reserves, but the fault of programs that failed to curtail production in a sufficient amount to allow the re-entry of the reserves on to the market without adding to free stocks.

It is interesting to note that an article in yesterday's Wall Street Journal indicated that the PIK program announcement on January 11th has led to an improvement in the corn futures market. Since January 11, the price of March-delivery corn on the Chicago Board of Trade has risen 7.8 percent. That contract closed 1.75 cents higher on Tuesday at 2.695 a bushel.

The article made it clear that expected tightening of supplies spurred the advance and not the anticipation of reduced stocks. The Journal stated, "Despite huge surpluses, so much of last fall's bumper crop is being stored on U.S. farms that users may be hard-pressed to find enough grain to meet their needs by late summer and fall."

The PIK payment will not be made until harvest time and given the option of storing for 5 or 12 months, free stocks should remain tight, therefore further improving prices. With above average participation in the program, we should be able to meet our program objectives over the next two years. It is for these reasons that the National Grange is in full support of the PIK program as announced by the Secretary. In our judgment, the program announced will accomplish the goals we need to obtain improved farm income. Emphasis must be placed on reduced production and not just on reducing stocks. Any changes that may be made that will discourage participation in the program will be self-defeating and should be avoided.

We therefore urge that Congress only consider legislation that will exempt the PIK payments from provisions of previous law that places a limit on the amount of payments that an individual farmer may recieve under farm programs and the price at which CCC stocks may be released back into the market. We would also suggest that barley be included in the PIK program for feed grains as we believe this will further encourage participation in the program.

The reasons given by the Department for not adding barley are, that the reserves are not too high, insufficient amount of stocks in CCC to operate a PIK and that they do not want to change the program as announced. We agree on not changing the program, but USDA has already made several minor changes and could add barley without a major change or disruption to the announced program.

We do not believe that the level of the barley reserves is a valid argument against barley price improvement which could result from the reduction in barley production. The Department has already made a change in the program as first announced, regarding the wheat PIK. They have said that if CCC wheat stocks are insufficient to meet PIK payment obligation, they will make the payment out of the 1983 crop. The same arrangement could be made for barley.

The export PIK program suggested by you and Senator Huddleston has merit. But as we said at the December hearing, we question how much of our excess stocks would or should be moved in this manner. As we have pointed out, excess stocks is not the key issue in improving farm prices -- supply/management through reduced production is the more important factor. We still are fearful of controlling transshipment by the recipient country and interference with commercial sales. We therefore would suggest that the export PIK program be limited to use for meeting specific foreign competition for markets, such as the wheat flour sale to Egypt and for market development. We are still nervous about an agency of government getting involved in export markets. We would much prefer that CCC stocks be reduced through regular trade channels, the PIK program or dispersed through PL-480 or other humanitarian programs.

We thank you for allowing the Grange this opportunity to present our views. I will be glad to respond to any questions you or members of the committee may have.

---

[Reprint from the January 1961 Iowa Farm Science, Vol. 15, No. 7; pages 3 and 4. College of Agriculture—Experiment Station—Extension Service, Iowa State University of Science and Technology]

## Can "Payments-in-Kind" Solve the Surplus Problem?

(By Arnold Paulsen and Earl O. Heady) [21]

Farm production has outpaced demand for some time. As a result, we've accumulated extensive surpluses under government loan and storage. These surplus stocks and their cost are the symptoms of an important national problem. The public is becoming more and more concerned about the size of the stocks and the cost of carrying them. Pressure is increasing to do something about both.

Some people believe that the stocks themselves are depressing farm prices and are the heart of the farm problem. In other words, why not get rid of the stocks and solve the problem?

"Payments-in-kind" are being discussed as one method of doing this. Generally payments-in-kind refer to paying farmers in bushels of corn or wheat, rather than money, for taking land out of production or for complying with other possible government farm programs. "Use the surplus to eliminate the surplus," or, "Pay the farmers in unneeded grain instead of cash."

### WHAT PURPOSE?

Why are payments-in-kind so appealing? Probably because they appear to offer a way to accomplish several goals that might be attained with a change in farm programs. (1) Stop building up surpluses. (2) Reduce stocks by using them for something. (3) Maintain farm prices at a "satisfactory" level. (4) Maintain food prices at a "satisfactory" level. (5) Accomplish these goals at a minimum treasury cost.

There are other goals, too—conservation of resources, economic growth, freedom for farmers, justice, equity and many others. It isn't possible to say what goals the public deems most important or how much of one the public is willing to give up to accomplish another.

Still, the attractiveness of the payments-in-kind approach probably has its base in the possibility of being able to accomplish several goals at the same time. To more accurately guage the effectiveness of such an approach, let's consider first the surplus stocks and then how a payments-in-kind program might work.

---

[21] Earl O. Heady is professor of agricultural economics and executive director of the Center for Agricultural and Economic Adjustment. Arnold Paulsen is assistant professor of agricultural economics and a member of the Center staff.

### ABOUT THE STOCKS

The stocks themselves have done very little to depress farm prices. From another study at Iowa State, Geoffrey Shepherd concluded, "For feed grains as a whole, the effect of withholding CCC stocks appears to be as great as if the CCC stocks were removed from the market." The stocks are of little concern to the daily market so long as they aren't fed back into the market.

If we got rid of all surplus stocks and only all current production were to flow onto the market, price improvement wouldn't come about. The government stocks—withdrawn and immobilized from the market—aren't the major depressing force on prices. The depressing force is the supply that's still free on the market. Even with the stocks gone, annual production can still give a market supply greater than the amount that has been free on the market in recent years.

### REDUCE SUPPLY?

Under some circumstances, payments-in-kind could increase the supply on the market and thus act to further depress market prices. That is, they could cut down surplus stocks without depressing market prices only if the supply-management or production-control parts of the program were effective enough to "make room" for the additional supply. There would be "room" for the additional supply at present market prices only if current production were cut as much as the amount released from storage in "grain payments" plus the amount that has recently been going into storage. Payments-in-kind could cut down surplus stocks and improve market prices only if production were cut more than the amount released from storage and more than the amount that has recently been going into storage.

Let's look at some examples. Say that normal-weather grain production expected for next year is 200 million tons with no production control. A payments-in-kind program might release 10 million tons of stored grain. If the counteracting production control were not successful and 200 million tons still were produced, then the net effect would be the same as if we produced 210 million tons and put them on the market. If current production were cut 5, 7 or even 9 million tons, the situation still would be similar.

Prices would be lower than with no controls, no supports and constant stocks whenever production wasn't reduced enough to counteract the amount released as payments-in-kind. Full average weather production would clear the market only at prices below present levels. And with no production control but payments-in-kind, prices would be still lower.

Say the control program reduced over-all production the full 10 million tons. Then 10 million tons could be released from storage without depressing market prices below the "no supports-no controls" level with constant stocks. Thus, payments-in-kind on a bushel-for-bushel basis—giving a farmer 1 bushel for each bushel he cut production below normal—would reduce stocks. But it would have no effect in improving prices above the "no supports-no controls" level.

Say the control program reduced over-all production more than 10 million tons. Then prices would be higher than the "no supports-no controls" level. How effective would the control programs have had to be to maintain the prices which existed in 1959 and 1960? An output-mangement program using 10 million tons of payments-in-kind would have had to reduce over-all grain production an average of 26 million tons each year in 1958 and 1959 to maintain 1959–60 grain and livestock prices.

Probably no supply-control program would be designed to get less than 1 bushel of control for each bushel paid in kind. Could it be designed and administered to get as much as 26 bushels of production control for each 10 bushels paid in kind? Perhaps, but supply-control programs often fall short of their goals. While corn production, for instance, is being reduced, grain sorghum may be increased or, production may drop in one state and increase in another. One farmer may cut his output while his neighbor increases. Acreage may be reduced, but yield per acre may increase. Favorable weather may result in production exceeding normal expectations. Any of these would mean no room on the market for grain released as payments-in-kind without depressing prices beyond goals.

### HOW EFFECTIVE?

How much theoretical production control might a bushel of grain buy? Theoretically it might buy more than a bushel. It shouldn't be necessary to pay a producer the full anticipated value of his crop to induce him not to grow it. This is because growing the crop involves direct out-of-pocket costs.

If the crop isn't grown, these costs can be saved. Most farmers would be induced to cut production if the payment for not growing a crop were equal to normal yield times price, less out-of-pocket costs.

It might be possible on this basis, say, for 1 bushel of payment-in-kind to buy 10 bushels of production control. This might be the case on marginal land, if hired help and custom machinery were used. There the expected value of the crop would be low and uncertain, and almost all costs could be saved if the crop weren't grown. On a typical family farm in the Corn Belt, on the other hand, direct out-of-pocket costs are a small proportion of the total value of the crop. If we consider investment, machinery and family labor as fixed costs, few savings could be made even if the crop weren't grown. In this case, 1 bushel of payment-in-kind might "buy" something nearer 1¼–2 bushels of expected production.

How efficient is grain, compared with cash, as a way of paying for voluntary participation in a supply-control program? Probably not as efficient. Given a choice between a check and an amount of grain of the same value, most people would choose cash. Then they wouldn't have to convert part or all of the grain to cash to buy the things they need. Offered an amount of grain of more value than the check, they might more readily accept the grain and take the trouble of converting it into cash. But it could certainly require at least as much, if not more, value in grain as cash to buy a given volume of production control.

We can't ignore the fact that grain is more expensive to transport and deliver than a check if the grain is to be delivered as a check would be. And the volume of grain, presumably, would have to be measured exactly. A certificate might be given—perhaps redeemable in cash or grain. This would be a form of check but would introduce another means of exchange and more bookkeeping.

So payments-in-kind might not be the least-cost way of liquidating government stocks. It might be cheaper for the government to sell the stocks on the market and use the proceeds to make money payments to farmers.

### STABILIZE PRICES?

It was possible to stabilize grain prices from years of small crops to years of large crops by varying the rate at which stocks were built up. Releasing stocks at a variable rate in an optional payments-in-kind program could be used to stabilize prices under a supply-control program. That is, the rate at which stocks were released could be varied to offset variation in production or demand and thus stabilize prices.

The government currently releases some grain from stocks each year. In the last 8 years, however, this has been more than offset by additions to stocks. The amount released each year is converted into money in the market. Payments-in-kind would use the grain directly for payments rather than use cash for distributing the value to farmers. But the effect on the supply and the price of grain would be the same whether the grain is converted to money in the market and the money sent to farmers or the grain distributed to farmers directly.

### SUMMING UP

We could dispose of all our surpluses with payments-in-kind. Optional payments-in-kind could be used to stabilize prices under a supply-management program. However, liquidation of the stocks wouldn't necessarily raise prices.

To improve market prices, any payments-in-kind programs must be coupled with an output-management program effective enough to accomplish at least three things: (1) a sufficient reduction in current output to offset the stocks released by payments-in-kind, (2) an additional reduction in current output the size of the past annual additions to stocks, (3) still another cut in current output which would reduce the total supply per person below what it has been in the last few years.

# TESTIMONY OF
# DAVID SENTER
# AMERICAN AGRICULTURE MOVEMENT, INC.

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

IT IS A PRIVILEGE AND HONOR TO BE ADDRESSING YOU AGAIN ON BEHALF OF THE AMERICAN FARMER AND THE AMERICAN AGRICULTURE MOVEMENT, INC. EVEN WITH MANY NEW FACES IN CONGRESS TODAY, OUR MUTAL PROBLEMS REMAIN THE SAME:

- PRICES ARE LOW.
- INVENTORIES ARE HIGH.
- FMHA, REPRESENTING 12 PERCENT OF THE FARM BORROWERS, ADMITS ONE IN FOUR (25%) OF THEIR 240,000 LOANS ARE IN A DELINQUENT STATUS.
- FARM SALES ARE STILL BEING CONDUCTED WITH AND WITHOUT OPPOSITION.
- FAMILIES UNDER ECONOMIC STRESS MUST UNDERGO ADDITIONAL TRAVAIL OF MARRIAGE DIFFICULTIES, ALCOHOLISM, SUICIDE, ETC.
- FARM IMPLEMENT SALES ARE DOWN, AS ARE THE SALES OF SEED, FEED, AND FERTILIZER AND OTHER CHEMICALS. THE NON-PRODUCING AGRICULTURAL ECONOMY CONTINUES TO SUFFER IN DIRECT PROPORTION TO THE BUYING POWER OF THEIR FARMER-CUSTOMER.
- MILK PRODUCTION IS UP, IN SPITE OF, OR PROBABLY BECAUSE OF, A 50 CENT PER HUNDREDWEIGHT ON-AGAIN OFF-AGAIN ASSESSMENT. THIS SHOULD PROVE, AT LEAST TO THOSE OF US IN THIS ROOM, THAT REDUCING DAIRY PRICES DOES NOT LEAD TO LESSENED PRODUCTION. WITH A GIVEN AMOUNT OF DOLLARS NEEDED, THE DAIRYMAN IN AMERICA HAS HAD TO INCREASE THE NUMBER OF PRODUCING UNITS TO TRY AND MAKE UP FOR THE LOSS IN DOLLARS.

BUT TO THE SUBJECT OF PIK: MANY QUESTIONS ABOUT PIK HAVE BEEN ANSWERED, BUT ALL HAVE NOT.

WE STILL FEEL THERE ARE TWO OPTIONS; THE LOAN RATES MUST BE INCREASED TO THE TARGET PRICE LEVELS. THE PIK COMMODITIES SHOULD BE ALLOWED RE-ENTRY INTO THE NINE-MONTH LOAN PROGRAM TO ALLOW FARMERS TO ORDERLY MARKET THEIR COMMODITIES, BUT AT THE SAME TIME, GET THE CASH NECESSARY TO OPERATE THEIR FARMS.

The alternative is for Congress to establish a minimum price by law. This would work very similar to the minimum wage law at no cost to the government and no chance for forfeiture of commodities into government ownership. This would also protect the integrity of the Farmer Owned Reserve (FOR) contracts and provide price protection prior to any of the reserve grain moving into the markets.

Huge investments were made by firms and individuals to provide loan storage. Farmers entering the FOR made on-farm storage investments with the assurance that the grain would be stored for three years or UNTIL THE PRICE REACHED THE RELEASE LEVEL. To withdraw that grain into the PIK program would be to breach those contracts and create further confusion.

Soybeans must be included in the setaside and paid diversion. Otherwise, there will be huge shifts in planting habits, and the weakening of the entire program. Additionally, the problem with sugar beets needs to be carefully considered.

The PIK program is getting too complicated. I just finished reviewing a briefing paper (130 questions and answers) about PIK. If the program is to succeed, it must stay simple. The bottom line is, farmers have to participate, draw down stocks, and get commodity prices up. If that doesn't happen, PIK is an effort in futility.

With the farm foreclosure problems in the country, we have no alternative than to place an across the board moratorium on farm foreclosures. The reason for PIK is to increase commodity prices. If in fact, you feel the program will work, it's imperative that you move on price protection, and foreclosures, all as a part of a complete package.

And, Mr. Chairman and Members, to provide for the best possible planning, the earliest possible announcement for 1984 crop year should be made. I will be gald to answer any questions you or any member might have.

## STATEMENT

## CHARLES L. FRAZIER

## NATIONAL FARMERS ORGANIZATION

Mr. Chairman, the leadership of my organization appreciates this opportunity to appear before your committee. The National Farmers Organization membership consists of producers of wheat, feed grains, livestock, milk and a few other commodities that are not so widely grown. Our national convention occurred in December and we are now finishing a series of regional meetings with all our members. Perhaps I can be most helpful today by reflecting the attitudes expressed by farmers who now have a general idea of the Payment In Kind Program, but who also still have many questions.

It should first be noted that we believe that you, Senator Huddleston and others joining you in introducing your new bill are on the right track in proposing specific congressional authorization for the special Payment in Kind Land Conservation Program while, at the same time, moving to expand overseas markets for our surplus commodities and assist producers who are hard-pressed to arrange sufficient funds for 1983 operations.

Since a large number of bills have only recently been introduced or announced by different members of the committee, I am sure that this hearing will be regarded as the first step in the normal process of reaching some consensus on action to be taken by the whole committee.

The president of our organization, DeVon R. Woodland, of Blackfoot, Idaho, advises that there is wide-spread interest on the part of producers in how this program will apply in the individual farm operations. There are a number of reports that local offices are not yet able to answer some of the producers' questions. If the Congress is to act on authorizing legislation, it should be done quickly to reduce confusion rather than creating more questions.

It is more important, perhaps, to recognize that the benefits of this program will accrue in 1984 if it is widely accepted by growers. The excessive stocks of grain now on hand must be reduced to bring about better prices. As of January 1 about 75% of all corn and 50% of the wheat were stored on farms. Consequently, it is fair to point out that, even though the PIK Program may be regarded as the "centerpiece" of the Administration's current effort to improve those prices, its success in the eyes of producers may very well depend on what other action is taken to improve loan rates and expand exports. Parallel actions in these two areas hopefully would provide some more immediate relief from the disastrous price levels with which we are still confronted in 1983.

To be specific, we appreciate the Secretary's announcement that the release of the PIK grain will be delayed or spread over a few months in order that it may not all be dumped on the market at one time. Starting in the summer of 1982, the NFO presented to its members a marketing plan that was to have been applicable to grain held in the farmer-owned grain reserve if and when market prices reached the release level. The thrust of this whole effort is to spread the marketing action over a period of months with forward cash contracts in preference to a dumping action that would break the market. The NFO plan has been well received by our own members and other producers who have taken an interest.

We will proceed to discuss such a planned bargaining approach with those producers who have made such commitments and now sign up in the PIK Program. They will face marketing decisions when the government grain is released following the next harvest. We hope to avoid a bad market break at that time.

Since any benefits of the PIK Program are long range, however, many of our good operators will be pressed for cash to meet current financial obligations and proceed with 1983 plans. The larger the participation in the PIK Program, the more grain to be released; consequently, we will now face some additional uncertainty on prevailing market prices. The assurance of storage payments for a few months announced by Secretary Block will be helpful but that, too, will accumulate in 1984.

We need to do several things in this Congress as soon as possible. Loan rates should be increased, the target prices scheduled under current law should be protected in the new budget and additional steps should be taken if necessary to aid farmers in installation of conservation measures on the land taken out of production. Why not commit some PIK grain to cover that expense?

It was indicated earlier in this statement that producers have a number of questions about the program. One of the more serious concerns relates to the IRS treatment of the PIK grain on producers' tax returns. We understand that Secretary Block is seeking clarification. Without dwelling on the subject at length, we want to emphasize the importance of publishing such a clarification as soon as possible.

Reports from the USDA and the Farm Credit Administration on foreclosures and forced sales are not supported by continuing reports from the country on needed credit to survive the current crisis. We are encouraged by the actions of Senators Huddleston and Boren, introducing emergency agricultural credit bills. Senator Zorinsky quickly introduced a bill in this Congress that would increase loan rates and target prices.

We realize you do not expect to deal with each of these issues in this brief hearing, but we urge you to consider a total package that would deal effectively with the sorry state of the farm economy as soon as possible.

## STATEMENT OF MICHAEL V. DURANDO, ASSISTANT DIRECTOR, NATIONAL AFFAIRS DIVISION, AMERICAN FARM BUREAU FEDERATION

The American Farm Bureau Federation, the nation's largest voluntary organization of farmers and ranchers, appreciates this opportunity to comment on the 1983 "Payment-In-Kind" program.

On December 9, 1982, in testimony before this subcommittee, Farm Bureau expressed tentative support for a payment-in-kind acreage reduction and export program. Farm Bureau supports the PIK program thus far implemented by the Administration, with the understanding that existing authorities somewhat limit its scope.

As an appendix to this statement, we have attached a Farm Bureau analysis of the 1983 "Payment-In-Kind" program. Farm Bureau has projected, as part of this analysis, the following enrollment of base acreages into the 1983 acreage reduction program (ARP) and payment-inkind (PIK) program for the basic commodities:

| | ARP | PIK |
|---|---|---|
| Wheat | 70 percent | 35 percent |
| Corn | 60 percent | 30 percent |
| Sorghum | 70 percent | 35 percent |
| Cotton | 80 percent | 40 percent |
| Rice | 80 percent | 40 percent |

Utilizing these projections, Farm Bureau estimates that stocks will be reduced substantially for all PIK commodities, and 1983 average prices for these commodities will remain basically unchanged from what they would have been without PIK. However, the analysis also concludes that reduced cash outlays by farmers because of an overall 6 percent reduction in planted acres will result in a net farm income increase of $2.0 to $2.5 billion. At the same time, a combination of reduced deficiency payments and storage costs could result in an overall federal budget savings for the first year of $1.19 billion.

At our annual meeting held in Dallas, Texas last month, Farm Bureau's voting delegates approved the following policy for 1983:

> "We support implementation of a 'crop swap' program in conjunction with an effective voluntary acreage reduction program for the 1983 and 1984 crops of wheat, feed grains, cotton and rice to alleviate the problem of our present burdensome, price-depressing surpluses. A 'crop swap' program should be:
> (1) Viewed as a short term solution;
> (2) Implemented in conjunction with an acreage reduction program which will provide adequate incentive to encourage producer participation so that supplies can be brought into line with demand;
> (3) Implemented so that all payments will go only to bonafide producers;
> (4) Structured in a manner that will enhance orderly marketing;
> (5) Coupled with an incentive program for foreign buyers; and
> (6) Implemented so that acres diverted under this program will not be grazed."

Clearly, it is the feeling of our membership that a PIK program represents the best alternative short-term action which can to be implemented at this time, in an attempt to reverse the trend of increasing carryover stocks of the basic commodities. Support for such a program, however, is contingent upon the implementation of several policy actions in conjunction with PIK. Of those provisions mentioned above, an incentive program for foreign buyers and a prohibition on grazing of acres taken out of production are still recommended by Farm Bureau for implementation in conjunction with the 1983 program.

An incentive program for foreign buyers should be structured similar to the provisions of S. 3074 as introduced by Senator Cochran during the 97th Congress. Farm Bureau believes that a "market bonus plan", or an "export PIK" program deserves serious consideration for implementation this year. As we recommended before this subcommittee last December, such a program should be targeted to third country markets, particularly those which have been affected by unfair trade practices of the European Community and to developing countries that have the potential for long-term market demand.

Under the announced provisions of the 1983 PIK program conservation use acreage may be grazed except during the six principal growing months for the local area. Farm Bureau opposes the grazing of any acreage diverted under the PIK program, reflecting the concern of our members who are cattle producers and who believe that permitting such grazing will have a negative impact on the cattle sector. We recommend, therefore, that this regulation be reconsidered and adjusted to reflect our concern.

Prior to implementation of the 1983 PIK program, concern was expressed over possible complications arising from two provisions of current agricultural statute: the $50,000 payment limitation; and the CCC minimum resale price policy. At this time, it appears that the 1983 PIK program is being administered successfully within the existing statutes. However, to ensure continued success of the 1983 program and to eliminate any uncertainty concerning the implementation of a PIK program for 1984, Farm Bureau recommends legislative action to specifically exempt the PIK program from both the payment limitation and the minimum CCC resale price provisions.

In conclusion, Farm Bureau believes that it is important to focus attention on the problems facing agriculture, rather than their symptoms. A payment-in-kind program may be successful in reducing price depressing stockpiles; but only through major revision of existing price support programs can the incentive for farmers to overproduce and the insulation from market signals be terminated. A market-oriented farm policy, coupled with responsible actions by Congress to enact a balanced federal budget, is a long-term solution to the problems facing farmers and ranchers today.

Thank you.

## IMPACT OF THE 1983 PAYMENT-IN-KIND PROGRAM

Prepared By: Economic Research Division
American Farm Bureau Federation
January 25, 1983

### INTRODUCTION

The payment-in-kind program recently announced by USDA has the potential to have a major impact on producers, farm suppliers, users of agricultural products and the federal government. The following analysis looks at the impact of the program on commodity supplies and use, acreage harvested, inputs purchases and cost savings to the federal government.

The central issue of farmer compliance remains basically unsolved. Final decisions by farmers on participation will revolve around farmers' future price expectations and yield expectations. Quite logically, the higher the price expectation and the higher the yield expectation compared to ASCS yields, the less likely a producer is to comply with the program. The administration has downplayed the probability of price improvement for the 1983 crop and this should encourage participation. Conversely, futures prices for some grains are reaching a level that good marketers in high producing regions may opt to use the futures market and basis contracts to lock in prices equal to the returns from PIK.

Our preliminary projections for crop prices for the 1983/84 marketing year are that market prices will not average above the loan rate. This relatively low market price outlook combined with the paid diversion payments and deficiency payments under the target price system would indicate strong compliance with the basic acreage reduction program announced earlier by USDA. When the benefits of the PIK program are compared to the income from the basic acreage reduction program, the benefits from the PIK program appear to be great enough to encourage many producers to use the PIK program to reduce harvested acreage in 1983.

Based on our analysis of the benefits of the acreage reduction program (ARP) and the PIK program, for the purposes of analyzing the impact of PIK we estimate that about 70% of the wheat producers will participate in the ARP with half of those putting an additional 30% of their base into the PIK program. Participation in the corn ARP will be at about 60% of the acrege base with about one-half of those producers choosing to go with the 30% PIK. Compliance by sorghum producers is estimated at 70% of the 20% ARP and half of those using a 30% PIK. For cotton we estimate that 80% of the acreage will be in the ARP with half using only the 20% ARP and the optional 5% paid diversion and half using the 20% ARP, 5% land diversion and a 25% PIK. Compliance by rice producers will result in 80% of the base acreage in the ARP with half of those using a 30% PIK.

WHEAT

Participation by 70% of the wheat producers in the ARP with half of those using a 30% PIK will result in 70.7 million acres planted to wheat. This would be a 22.3 million acre cut from the potential plantings of 93.0 million acres, 91 million acres in the base and 2 million acres outside the base. Harvested acreage would be 63.7 million acres in 1983. This compares to a harvested acreage of 79.0 million in 1982 and 80.9 million acres in 1981.

Assuming an ASCS program yield of 34 bushels on the PIK acres, farmers would receive 308 million bushels of wheat for participation in the PIK program.

The following table shows supply/utilization estimates for the 1983/84 wheat marketing year without PIK and with PIK.

1983/1984 WHEAT MARKETING YEAR
NO "PIK" AND "PIK"

| | NO "PIK" | "PIK" |
|---|---|---|
| | (Million, Except Yield) | |
| Acres Planted | 83.5 | 70.7 |
| Acres Harvested | 73.5 | 63.7 |
| Yield/Acre | 34.8 | 36.8 |

| | | | | |
|---|---|---|---|---|
| Beginning Stocks (bu.) | 1,442 | (330 Free) | 1,442 | (330 Free) |
| Production (bu.) | 2,558 | | 2,344 | (308 PIK) |
| Imports (bu.) | 2 | | 2 | |
| Total Supply (bu.) | 4,002 | (2890 Free) | 3,788 | (2984 Free) |
| Feed (bu.) | 100 | | 100 | |
| Food (bu.) | 660 | | 660 | |
| Industry,Seed (bu.) | 100 | | 100 | |
| Total Domestic Use (bu.) | 860 | | 860 | |
| Exports (bu.) | 1,700 | | 1,700 | |
| Total Use (bu.) | 2,560 | | 2,560 | |
| Ending Stocks (bu.) | 1,442 | | 1,228 | |
| Farmer-Held Reserve (bu.) | 925 | | 664 | |
| CCC | 187 | | 140 | |
| "Free Stocks" (bu.) | 330 | | 424 | |
| Annual Average Price ($/bu.) | $3.61 | | $3.61 | |
| $0.20 | | | | |

Note that the yield per harvested acre is higher with the PIK program because the lower yieldings acreage is enrolled in the PIK program. With PIK replacement at 95% of the ASCS average yield for the entire farm, free stocks at the beginning of the marketing are about 100 million bushels higher with the PIK program than without the PIK program (2,984 million bushels vs. 2,890 million bushels). The payment of 5 months of storage costs by USDA after producers receive their PIK grain is extremely important in limiting the price depressing effect of the larger free stocks at the beginning of the marketing year.

The PIK program should have no impact on domestic or export use because free stocks should be large enough to meet the needs of all users. Ending stocks are reduced by a little over 200 million bushels. Free stocks will be about 100 million bushels higher at the end of the year with the PIK program than without. The price projection is the same under both programs, but the higher free stocks at the end of the year could cause some extra price weakness if prospects for the 1984 crop indicate large supplies and weak demand.

## CORN

With a 60% participation in the corn ARP and half of those producers using a 30% PIK, corn planted will be reduced by 17.3 million acres from the potential of 86 million acres, 82 million acres in the base and 4 million acres outside the base. Plantings would total 68.7 million acres with 61.0 million acres harvested for grain, compared to 72.8 million acres harvestd in 1982 and 74.6 million acres harvested in 1981.

Assuming an average ASCS yield of 100 bushels per acre on the PIK land, corn producers would receive 595 million bushels of corn for participating in the PIK program.

The following table shows the supply/utilization estimates for the 1983/84 corn marketing year without the PIK and with the PIK.

## 1983/1984 CORN MARKETING YEAR
## NO "PIK" AND "PIK"

| | NO "PIK" | "PIK" |
|---|---|---|
| | (Million, Except Yield) | |
| Acres Planted | 79 | 68.7 |
| Acres Harvested | 69 | 61.0 |
| Yield/Acre | 106.5 | 110.0 |
| Beginning Stocks (bu.) | 3,256 (606 Free) | 3,256 (606 Free) |
| Production (bu.) | 7,349 | 6,710 (595 PIK) |
| Imports (bu.) | 1 | 1 |
| Total Supply (bu.) | 10,606 (7956 Free) | 9,967 (7911 Free) |
| Feed (bu.) | 4,450 | 4,450 |
| Food and Seed (bu.) | 755 | 755 |
| Gasohol (bu.) | 130 | 130 |
| Total Domestic Use (bu.) | 5,335 | 5,335 |
| Exports (bu.) | 2,350 | 2,350 |
| Total Use (bu.) | 7,685 | 7,685 |
| Ending Stocks (bu.) | 2,921 | 2,282 |
| Farmer-Held Reserve (bu.) | 2,200 | 1,831 |
| CCC (bu.) | 450 | 225 |
| "Free Stocks" (bu.) | 271 | 226 |
| Annual Average Price ($/bu.) | $2.66 | $2.66 ∓ $0.10 |

As with wheat, yields on the acres harvested are higher with the PIK program than without the PIK program. With a replacement rate of only 80% of the ASCS average farm yield, the total free stocks are slightly smaller at the start of the marketing year with the PIK program than without the PIK program. This combined with the 5 months storage payment should reduce the likelihood of price weakness at the beginning of the marketing year.

Free stocks should be adequate to meet user needs so there is no difference on utilization with or without the PIK program. Ending year stocks are reduced by about 640 million bushels. The annual average farm price is the same with and without PIK.

### SORGHUM

Sorghum planted acreage will be reduced by 4.2 million acres from a base of 17 million acres if 70% of the acreage is enrolled in the acreage reduction program and half of those producers use the 30% PIK. Harvested acreage would be 11.2 million acres, compared to 13.8 million acres harvested in 1982 and 13.7 million acres in 1981. With an average ASCS farm yield of 55 bushels per acre, sorghum producers in the PIK program would receive 79 million bushels of sorghum.

The following table shows the supply/utilization projections for the 1983/84 crop marketing year for sorghum without and with a PIK program.

## 1983/1984 SORGHUM MARKETING YEAR
## NO "PIK" AND "PIK"

| | NO "PIK" | "PIK" |
|---|---|---|
| | (Million, Except Yield) | |
| Acres Planted | 14.6 | 12.8 |
| Acres Harvested | 12.8 | 11.2 |
| Yield/Acre | 62 | 65 |
| Beginning Stocks (bu.) | 500 (50 Free) | 500 (50 Free) |
| Production (bu.) | 794 | 728 (79 PIK) |
| Imports (bu.) | 1 | 1 |
| Total Supply (bu.) | 1,295 (845 Free) | 1,229(858 Free) |
| Feed (bu.) | 430 | 430 |
| Food and Seed (bu.) | 11 | 11 |
| Total Domestic Use (bu.) | 441 | 441 |
| Exports (bu.) | 300 | 300 |
| Total Use (bu.) | 741 | 741 |
| Ending Stocks (bu.) | 554 | 488 |
| Farmer-Held Reserve (bu.) | 390 | 341 |
| CCC (bu.) | 60 | 30 |
| "Free Stocks" (bu.) | 104 | 117 |
| Annual Average Price ($/bu.) | $2.40 | $2.40 + $0.10 |

With greater year to year variations in yield per acre for sorghum than for corn or wheat, about the only clear statement that can be said is that if weather is somewhat close to normal the PIK program will have little impact on free stocks, utilization and price and will result in a 50 to 65 million bushel decline in ending year carryover.

## COTTON

Cotton acreage planted is expected to be about 10.7 million acres with 80% of the producers participating in the 20% acreage reduction and 5% paid land diversion and half of those participating in a 25% PIK. This would be a 4.5 million acre cut from the base of 15.3 million acres. Harvested acres would be 9.9 million, compared to 10.0 million acres harvested in 1982 and 13.8 million acres in 1981.

Assuming an ASCS program yield of 500 pounds per acre on the PIK acres, producers would receive 640,000 bales of cotton for participation in the cotton PIK program. The following table shows the supply/utilization estimates for 1983/84 without the PIK program and with the PIK program.

## 1983/1984 COTTON MARKETING YEAR
## NO "PIK" AND "PIK"

| | NO "PIK" | "PIK" |
|---|---|---|
| | (Million, Except Yield) | |
| Acres Planted | 12.5 | 10.7 |
| Acres Harvested | 11.3 | 9.9 |
| Yield/Acre | 495 | 530 |
| Beginning Stocks (bales) | 8.40 (2.6 Free) | 8.40 (2.6 Free) |
| Production (bales) | 11.7 | 10.9 (.64 PIK) |
| Imports (bales) | 0.2 | 0.2 |
| Total Supply (bales) | 20.3 (14.3 Free) | 19.5 (14.3 Free) |

| | | |
|---|---|---|
| Utilization (bales) | Million 480 lbs. Bales | |
| Mill Use (bales) | 5.5 | 5.5 |
| Exports (bales) | 6.3 | 6.3 |
| Total Use (bales) | 11.8 | 11.6 |
| Unaccounted (bales) | .2 | .2 |
| CCC Stocks (bales) | 5.6 | 5.0 |
| Free Stocks (bales) | 2.7 | 2.5 |
| Ending Stocks (bales) | 8.3 | 7.5 |
| Average Price ($/lb.)<br>.05 | $0.55 | $0.55 |

As with the other crops under the PIK, beginning free stocks are about the same as the non PIK beginning stocks, use remains unchanged, ending stocks are reduced and the average market price is unchanged. The cotton situation is highly volatile because the incentives to participate in the program are great and production costs and yields vary greatly among the various cotton producing regions of the country. If participation in the cotton PIK program is significantly greater than our current estimates, the stocks unprotected by the loan program at the beginning of the crop marketing year will be greater and cotton prices will be more vunerable to downside pressure.

## RICE

Participation of 80% of the base rice acreage in the 15% acreage reduction and 5% paid land diverson and half of this acreage in a 30% PIK would give a planted acreage of 2.7 million acres. This would be a reduction of 1.0 million acres from the base acreage of 3.6 million acres. Harvested acreage would be 2.7 million, compared to 3.29 million acres in 1982 and 3.8 million acres in 1981.

Assuming an ASCS average farm yield of 4500 pounds per acre, producers participating in the PIK program would receive 15.1 million hundredweights of rice. The folowing table shows the suply/utilization estimates for the 1983/84 rice marketing year without and with the PIK program.

### 1983/84 RICE MARKETING YEAR
### NO "PIK" AND "PIK"

| | NO "PIK" | | "PIK" | |
|---|---|---|---|---|
| | (Million, Except Yield) | | | |
| Acres Planted | 3.20 | | 2.72 | |
| Acres Harvested | 3.18 | | 2.70 | |
| Yield/Acre | 4800 | | 4925 | |
| Beginning Stocks(cwt) | 60.6 | (16.6 Free) | 60.6 | (16.6 Free) |
| Production (cwt) | 152.6 | | 133.0 | (15.1 PIK) |
| Imports (cwt) | 0.1 | | 0.1 | |
| Total Supply (cwt) | 213.3 | (159.3 Free) | 193.7 | (166.1 Free) |
| Domestic Use (cwt) | 65.5 | | 65.5 | |
| Export Use (cwt) | 69.0 | | 69.0 | |
| Total Use (cwt) | 134.5 | | 134.5 | |
| Unaccounted (cwt) | 10.0 | | 10.0 | |
| Ending Stocks (cwt) | 68.8 | | 49.2 | |
| CCC (cwt) | 44.0 | | 28.9 | |
| "Free" Stocks (cwt) | 24.8 | | 20.3 | |

Average Farm Price $8.14 $8.14
$0.52
($/cwt)

With the PIK program, free stocks are large enough to meet expected use and ending stocks are reduced with no change in the season's average price. The most interesting thing about the rice situation under PIK is that if exports are 15 or 20 million hundredweights higher than currently forecast, which would put exports at the same level as several years ago, the rice supply/utilization balance would move back toward balance much more rapidly than the other crops under PIK.

TOTAL ACREAGE CHANGE

The following table shows the acreage harvested for grain and cotton for the five PIK crops for 1981, 1982, 1983 without PIK and 1983 with PIK.

| Crop | 1981 | 1982 | 1983<br>NO PIK | 1983<br>PIK |
|---|---|---|---|---|
| | (------------------- | ---millions--- | --------------- | -----------) |
| CORN | 74.6 | 72.8 | 69.0 | 61.0 |
| WHEAT | 80.9 | 79.0 | 73.5 | 63.7 |
| SORGHUM | 13.7 | 13.8 | 12.8 | 11.2 |
| COTTON | 13.8 | 10.0 | 10.3 | 9.9 |
| RICE | 3.8 | 3.3 | 3.2 | 2.7 |
| TOTAL | 186.8 | 178.9 | 169.5 | 148.5 |

The PIK program gives a total acreage reduction of 21.6 million acres compared to 1983 harvested acreage without PIK. The reduction compared to 1982 harvested acreage is 31.0 million acres and a reduction of 38.9 million acres from 1981, which was a year when no acreage reduction programs were in place.

This does not tell the entire story because several major crops are outside th PIK program. Soybeans are not part of PIK and harvested acreage will be about 70 million. Barley and oats are also not part of PIK and they will together have harvested acreage of close to 20 million acres. In addition to these are hay and fruits and vegtables which put total cultivated cropland at 360 million acres in 1981.

IMPACT ON CASH EXPENSES

The PIK program will reduce farmers' cash outlay in 1983 by reducing acreage planted. Based on preliminary numbers from USDA, farmers spent about $40 billion in 1982 on seed, fertilizer, lime, pesticides, fuel and oil, repair and operation, machine hire, custom work and contract labor. Most of these costs would have been associated with crop production. With a 6% cutback in acres due to PIK, producers would likely cutback purchases by $2.0 to $2.5 billion. This should lead directly to a $2.0 to $2.5 billion increase in net income.

## IMPACT ON GOVERNMENT COSTS IN FISCAL YEAR 1984

The PIK program is not expected to increase market prices above what they would have been without the PIK program and thus no savings in deficiency payments will be achieved in this manner. No deficiency payments will be paid on the land idled under the PIK program. The following table shows the savings from this for the 1983 crop.

| CROP | Products not Produced On PIK Idled Land (million) | Deficiency Payment Rate | Dollars Saved (million) |
|---|---|---|---|
| CORN (bu) | 880 | $0.21/bushel | $185 |
| WHEAT (bu) | 333 | $0.65/bushel | 217 |
| SORGHUM (bu) | 66 | $0.22/bushel | 15 |
| COTTON(bales) | 0.8 | $0.21/pound | 81 |
| RICE (cwt) | 19.6 | 3.26/cwt | 64 |
| TOTAL | XXXXX | XXXXX | 562 |

Substantial savings on interest and storage will be realized by USDA by transfering CCC owned and farmer held reserve grain to producers. The following table shows these savings for fiscal year 1984, assuming that USDA would hold the crops for the entire year and pay storage and interest for the entire year.

| CROP | Amount of PIK Commodities Given Producers (million) | Per Unit Storage Cost | Total Storage Savings (million) | Per Unit Interest Cost | Total Interest Savings (million) | Total Savings |
|---|---|---|---|---|---|---|
| CORN (bu) | 655 | $0.265 | $174 | $0.26 | $170 | $344 |
| WHEAT (bu) | 308 | 0.265 | 82 | 0.36 | 111 | 193 |
| SORGHUM (bu) | 83 | 0.265 | 22 | 0.23 | 19 | 41 |
| COTTON(bales) | 0.640 | 20.00 | 13 | 27.0 | 17 | 30 |
| RICE (cwt) | 16.4 | 0.40 | 7 | 0.80 | 13 | 20 |
| TOTAL | XXX | XXX | $298 | XXX | $330 | $628 |

Potential savings for USDA on the PIK program is estimated at $562 million in deficiency payments for the 1983 crop and $628 million in storage and interest charges for fiscal year 1984 for a total first year savings of $1.19 billion.

This analysis does not consider changes in net CCC loans outstanding.

## SUMMARY

The PIK program as currently announced by USDA appears to have enough incentives to encourage participation on the part of many producers. Free stocks at the start of the marketing year will be larger for some crops than without the PIK program, but the provisions for paying producers at least five months of storage should help even out marketings and reduce price pressure early in the marketing year. Of course as participation increases the free stocks situation becomes more critical as larger amounts of commodities are not protected by the loan programs.

Domestic and export utilization during the 1983/84 marketing year will be unaffected by the PIK program. Ending stocks will be reduced for all five commodities involved in the PIK program. The season's average prices for these commodities will not be higher with PIK program.

The PIK program should be viewed as a stocks reduction program and a program to reduce government costs, not as to a price enhancing program or a solution to long term farm program problems. The world markets will not accept higher commodity prices at this time and any efforts to change the PIK program into a price enhancing program will result in a loss in domestic and export markets and a failure to reduce overall stock levels.

The PIK program for 1983 does not reduce carryover stocks to acceptable levels. Assuming no reductions in production due to adverse weather and no unexpected increase in domestic or export use, some combination of acreage reduction programs and PIK programs will be needed again in 1984 and possibly 1985.

Reduction in purchases of inputs because of th PIK program will be minimal, with a decline of only $2 to $2.5 billion in purchases for the 1983 crop year.

Government savings due to lower deficiency payments and lower storage and interest charges will be approximately $1.2 billion during the first year of the PIK program.

## STATEMENT OF

## ROBERT J. MULLINS
## DIRECTOR OF LEGISLATIVE SERVICES
## NATIONAL FARMERS UNION

Mr. Chairman and Members of the Subcommittee:

I am Robert J. Mullins, Director of Legislative Services for the National Farmers Union. As a general farm organization representing the interests of hundreds of thousands of family farmers who will be directly impacted by the operation of the 1983 payment-in-kind program for wheat, feed grains, rice and cotton, I appreciate the opportunity to share our concerns and views with the Subcommittee.

Shortly after Secretary of Agriculture John Block declared his intention in December to implement a payment-in-kind program for the 1983 crop year, the Executive Committee of the National Farmers Union announced that the organization could support a payment-in-kind program provided that adequate safeguards were included to protect against further depression in market prices and that the integrity of the farmer-held reserve program and the loan and target price programs were protected.

Although we are hopeful that the program as announced may have some beneficial impact in the future, it does not address the crucial need to increase prices during the next few months. In fact, if some minimum pricing provisions are not applied to the grain and cotton that will be entering a "free" status under the program, the likelihood is that farm prices will drop even more. In order to avert that catastrophe, we urge the Congress to establish a minimum price for those commodities, as well as increasing the loan rate for commodities that are going into the regular loan program and the farmer-held reserve program. Anything less will result in a precipitous price decline.

To give our producers the requisite protection, we believe that a special compensatory increase of 10% should be made in the CCC loan rate of all commodities which are eligible in the payment-in-kind program. This increase is needed to offset any downward pressure which the program may exert upon market prices due to the release of substantial quantities of stocks into an already demoralized market.

If the PIK program wins significant participation and works to reduce market supplies, the 10% compensatory CCC loan increase would be cost free. But if the PIK program does nothing more than further depress prices, producers should at least be shielded from being punished for the failure of the program.

Another concern of ours regarding the PIK program relates to the probability that there may not be stocks available in all producing areas from which the PIK benefits may be distributed, and also the likelihood that one year's operation of the program may deplete the availability of some commodities. Therefore, we urge that the Congress legislate authority for cash payments to be made in lieu of commodity distribution as may be needed. This is important so that an orderly transition can be made to an ongoing and effective supply management system.

Delegates to the 81st annual convention of National Farmers Union, meeting February 27 to March 2, in San Diego, California, will be making further recommendations on loan rates, target prices and other provisions, including the budgeting of current and future farm programs, as well as the PIK program. We will transmit these recommendations to you in a timely and appropriate manner.

Having had the opportunity to receive some reactions to the PIK program from our members, I believe I can summarize most of their concerns in five points, two of which I have already mentioned:

1. A minimum price must be established for the commodities used in the payment-in-kind program;

2. The integrity of the farmer-owned reserve program and the loan and target programs must be maintained;

3. The rights of tenants and sharecroppers must be protected;
4. There should be equity in the treatment of the various commodities; and,
5. Better provisions for orderly marketing of the commodities must be provided.

We are greatly concerned that the announced program, whether by design or not, will greatly weaken the effectiveness of the farmer-owned reserve program. In fact, the requirement that the payment-in-kind commodities will be supplied from the farmer-owned reserve is the first step to diminishing the effectiveness of the program. It also disregards the intent of Congress in establishing the reserve. As an organization, we feel very strongly that an adequate reserve program must be maintained to meet both our domestic and export needs in the event of a disaster either here at home or abroad.

Additionally, the release of these stocks before the agreed-upon trigger level virtually assures a soft market for the foreseeable future. The farmer-owned reserve program is the best tool we have at present for maintaining any sort of semblance of a supply-management program. To weaken it now, through a short-sighted program, may well prove disastrous in the long-run.

Although the Department has assured us that the rights of tenants and sharecroppers will be protected by local ASCS committees, we would like to see a strong directive from the Secretary to the local committees that this policy be fully carried out.

There is also concern that various commodities have not been treated equitably under the program. Specifically, the differential on the "pay-back" rate between wheat and other commodities should be eliminated. Rather than have a dual system, we would suggest that they all be raised to the wheat "pay-back" level. We also recommend that producers of barley, oats and soybeans be allowed to participate in the payment-in-kind program.

In order to provide producers with maximum flexibility in the marketing of the commodities received under the program, we recommend that the period for which storage payments are made be extended for both commercially and on-farm stored commodities. Such an extension would provide for more orderly marketing of the commodities.

Early next month, our national convention delegates will also address themselves to the question of payment limitations. As you are aware, National Farmers Union has long advocated measures to reflect the principal benefits of farm stabilization programs to family-scale producers, and, in the process, to prevent their becoming a needless windfall to larger than family-scale farming operations.

We see no compelling reason why a payment limitation should not apply in the PIK program and will submit any declaration of the convention on the subject for your consideration.

There is one other phase of the PIK program on which I should comment briefly. That is the suggestion that a PIK-type program could be used to encourage grain exports.

This idea, along with the blended credit program and efforts to gain access to certain markets, miss the most vital problem that we have in agricultural trade. That problem is the low prices at which our farm products are being sold in world markets.

Our U.S. trade deficit in 1982 was $40.9 billion, the second worst in history.

One of the reasons for that huge deficit was that our agricultural trade balance dropped from a year earlier. We had an agricultural trade surplus of only $23.7 billion, compared with $26.7 billion the year before.

Our agricultural trade export volume dropped a little in 1982, by 2 percent, but most of the damage was done by the sharp drop in grain prices, by more than 11 percent.

6

If we could at least price our export grain somehwere near the cost of production, we could enhance our export earnings by as much as $10 billion a year.

But, our Federal government refuses to talk about any negotiations with other exporting nations to put a reasonable floor under world market prices.

It is said that we have to keep our prices low to be competitive, but as a matter of fact, we haven't increased our market share by our policy of give-away prices. The competition would still be the same whether the wheat was priced at $3 or $5 a bushel. We are the residual supplier in the market as it is. We get what is left after others make their sales. Increasingly, other exporters are entering bilateral trade agreements with importing countries to assure themselves of dependable markets.

So, we would have nothing to lose, but much to gain if we could take some cooperative action with other exporters to raise world prices by $1 or more a bushel.

But, instead of looking at the opportunities to raise prices, Administration policy is geared to reducing prices.

The blended credit program is a method of using subsidized credit to reduce the net selling price of our grain.

The export PIK program, which would give grain export companies or the importing nations a bonus quantity of free grain to encourage exports also is a price-reduction tactic.

The dangerous thing about these strategies is that we lose export earnings by reducing export prices, but more than that, there is a possibility that the price cuts could result in a trade war which would damage producers here and elsewhere.

We will welcome your advice and counsel as we contend with these difficult problems in some very uncertain and unstable times.

# Statement of
Don Loeslie, President
National Association of Wheat Growers

Mr. Chairman and Members of the Subcommittee:

The National Association of Wheat Growers appreciates this opportunity to present its views on the Payment-In-Kind land diversion program. I am Don Loeslie, a Warren, Minnesota wheat producer and president of the National Association of Wheat Growers. Accompanying me today is Carl Schwensen, executive vice president of our organization.

Mr. Chairman, farmers are entering what could be the fourth consecutive year of reduced net farm income, and wheat prices are now averaging 25 percent below the level of three years ago. But the farmer is no longer the only victim of the ailing agricultural economy, because the depressed level of economic activity in the farm sector is reaching beyond rural communities to industrial centers where production lines are stopping and the jobless rate is increasing. This situation must be turned around, and it can be done if farm profitability is restored.

Since the beginning of the 1960's, U.S. wheat production has increased 135 percent to over 2.8 billion bushels (76 million tons), and exports have risen by almost 175 percent to a projected 1.6 billion bushels (44 million tons). Although the farmers' domestic market will always be important, exports of U.S. wheat have exceeded domestic food consumption in each of the last 24 years. This ever-increasing dependence on export trade has made global economic conditions and world crop developments sources of great instability. Recently, it has also exposed farmers to severe economic consequences resulting from the use of agricultural trade in pursuing U.S. foreign policy goals.

As we see it, there is a direct correlation between the nation's foreign policy decisions, farm prices and the cost of government support programs. To be sure, if U.S. policy had been aimed at regaining the share of the Soviet grain market that has been lost since 1980, farmers would be receiving a larger portion of their income from the market, and the cost of government price and income support programs would have been sharply reduced because our excess stock level would be at least one-third less than current projections. Instead, the domestic economic consequences of our foreign policy decisions have been largely ignored, and the responsibility for rising farm program costs is being transferred solely to the programs themselves.

Frankly, Mr. Chairman, our aim is to improve net farm income, and we want to see this accomplished through increased returns to the farmer from the marketplace. Current acreage reduction programs and export initiatives can provide the opportunity for recovery, but a sustained effort is required. This cannot be accomplished by reducing incentives for farmers to comply with farm programs in 1984 and future years.

Target price protection provides the strongest incentive for farm program compliance, but the Administration's FY 1984 budget plan seeks to maintain target prices at 1983 levels. We oppose this recommendation, and we urge maintenance of target prices at no less than the levels set by the 1981 Farm Act. For the same reasons, the NAWG urges that the price support loan for wheat be set at no less than the current level of $3.65/bu., and we urge the subcommittee to take steps to assure that this level is maintained as a minimum.

The NAWG supported the enactment of payment-in-kind legislation proposed during the close of the 97th Congress, and we continue to support special authority for the operation of the now established PIK program for wheat and other commodities.

According to the USDA's own analysis, the 1983 reduced acreage, paid diversion and PIK programs for wheat are projected to reduce harvested acreage 17 percent below the 1982-83 level to 65.6 million acres. Total wheat production is expected to decline 15 percent from last season's record level to about 2.4 billion bushels, and total supplies for the 1983-84 season are projected to drop modestly, although they will still be three percent greater than the 1981-82 level.

Historically, ending stocks have been a fairly good indicator of market price levels, and USDA's impact study projects that there will be virtually no change in excess wheat stocks from the record 1.5 billion bushel level that is expected to be reached this season. Fifty percent of 1983-84 ending stocks are projected to be isolated in the farmer-owned reserve, compared to 65 percent in the current season, and "free stocks," the amount of grain immediately availalbe to the market, will grow to 564 million bushels from the 349 million bushel level projected for this May 31.

In our judgement, this analysis is persuasive evidence for a multi-year approach to correcting our supply imbalance, and the NAWG feels that the following features should be implemented to obtain maximum program participation and successful results:

-- A multi-year supply adjustment program should be established, which could include reduced acreage, paid diversion and PIK components, to reduce the wheat carryover to 600-800 million bushels.

-- A deficiency payment, either in cash or in kind, should be paid on PIK acres.

-- Barley should be included in the PIK program to curtail production and clear excess supplies from the market.

-- Grain reserve stocks should be utilized in an export bonus program, with forfeited stocks receiving the same storage payments as reserve wheat used in the domestic PIK program.

-- Wheat farmers should be allowed to continue to enter wheat into the 1982 reserve for use in the PIK program until the signup ends on March 11.

-- The payment level for a 1984 and any succeeding programs should be no less than 95 percent of the program yield on idled acres of wheat.

-- Under no circumstances should the reserve loan be lowered from one year to the next; the 1983 reserve loan should be no less than $4.00/bu. with immediate reserve entry allowed.

The NAWG has a keen interest in maintaining and expanding U.S. export expansion programs, and we are concerned that the Administration's FY 1984 budget plan proposes to reduce export credit guarantees by $1.8 billion and the level of direct loans used for the successful "blended credit" program by $250 million. We are also concerned that the budget proposal seeks an increase of only $13 million for the PL 480 program, since this huminitarian program is the best means of transferring excess U.S. food supplies to developing nations which have been hit hard by the world-wide recession.

Further, we believe that an "export PIK" program could add significantly to U.S. trade expansion efforts, and we support proposals before this subcommittee to implement such a program. It is apparent that the Commodity Credit Corporation will utilize all uncommitted wheat stocks in the domestic PIK program and the recent Egyptian flour sale, and we suggest that Congress authorize the

Secretary of Agriculture to borrow from the Food Security Reserve to operate an export PIK program for wheat.

This reserve contains 147 million bushels of wheat which were set-aside following the 1980 Soviet grain embargo to insure that the U.S. could meet future PL 480 and emergency relief requirements. Recognizing that wheat supplies will be more than adequate to cover these needs, we believe that this wheat could be used now for export promotion purposes and later replenished as provided in existing law. The current cost of storing this grain is about $50 million per year.

Mr. Chairman, we are convinced that our current economic problems can be corrected through strong administration of effective domestic and export programs, and we look forward to working with this subcommittee in making a sustained effort to achieve recovery. We appreciate this opportunity to appear before you today, and I will be pleased to respond to your questions at the appropriate time. Thank you.

# STATEMENT OF DREW STABLER, TREASURER

# NATIONAL CORN GROWERS ASSOCIATION

I am a corn, wheat and soybean farmer from Gaithersburg, Maryland, and I am appearing before you today as the Treasurer of the Board of Directors of the National Corn Growers Association (NCGA). In addition, Mr. Kenney Seeger is here today also in his capacity as the Program Coordinator in the Washington office of the National Corn Growers Association.

As you know, there are seventeen affiliated state corn grower organizations that make up the membership of the National Corn Growers Association. They are: Colorado, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Michigan, Minnesota, Missouri, Nebraska, New York, North Carolina, Ohio, Pennsylvania, Virginia and Wisconsin. The production of corn in these seventeen states accounts for just over 90 percent, on average, of the annual production in the United States.

MR. CHAIRMAN AND SUBCOMMITTEE MEMBERS: We appreciate having the opportunity of expressing the views and position of our organization about the "payment-in-kind" program as an additional measure to reduce corn production in the 1983 season. As you may know, the National Corn Growers Association (NCGA) urged the Administration to implement a paid acreage diversion for a reduction in corn production in 1982. At that time, there was only a voluntary set-aside program for the 1982 program. Following the late 1982 USDA forecast for an 8.3 billion bushel corn crop, the Administration announced a 10% voluntary set-aside and 10% paid acreage diversion program for 1983 corn production. Our organization had urged the Administration to announce a 20% paid acreage diversion. Consequently, the National Corn Growers Association is pleased that the additional provisions of the "payment-in-kind" program were offered to farmers to reduce 1983 production.

Our organization has stopped short of urging corn farmers to participate in the 1983 "payment-in-kind" program; however, we have urged U.S. corn farmers to examine the provisions of the basic voluntary set-aside and paid acreage diversion program -- as well as the additional measurers contained in the PIK program -- to determine the desirability and suitability of participating in it.

Our support for the 1983 PIK program is tempered by only three immediate concerns: (1) the complex and detailed nature of the implementation of the program within a thirty-day time period; (2) the variability of conditions and circumstances that will prevail in various locations and regions of the overall U.S. corn production areas; and (3) the delay of the Internal Revenue Service to give a firm ruling with regard to the annual tax obligation of the PIK grain payment. The NCGA strongly recommends that the PIK grains be treated in the same manner as harvested grains. This problem of taxation is having an acute effect on determining the economical suitability of the PIK program. It is for these reasons that the NCGA Board of Directors urges the Secretary of Agriculture to instruct the national and state-level officials of the Agricultural Stabilization and Conservation Service (ASCS) to consult closely and to work effectively with U.S. corn farmers at the national and state levels to tailor the final PIK program provisions and details to meet any unique circumstances of the individual counties and states. A copy of the NCGA letter dated January 21, 1983, to Secretary of Agriculture John R. Block is attached to this statement for your information.

We in the National Corn Growers Association also have a broader and longer range concern: what will be the nature and goal of a corn production program in 1984? Because of the projection for carryout corn stocks of about 3.5 billion bushels on September 30, 1983, and the deteriorating outlook for any improvement in the export demand for corn in the 1983/84 season, we believe that the Administration and Congress should now begin to fashion a farm program for an early announcement in the fall of 1983 for the 1984 season. The combined purpose of the 1983 production with the development of a 1984 production should be to reduce production in order to bring U.S. corn supplies in line with both domestic and foreign demand.

The basic acreage reduction program, combined with the additional measures of the PIK program, are only designed to address the element of production, and consequently, the supply of corn in the United States. Our organization holds adamantly to the belief that the United States must increase its efforts to develop, expand and maintain foreign markets for the export outlet for U.S. corn. There are any number of measures that could be augmented as well as measures initiated to combine a vigorous corn and agricultural export program with the acreage reduction program:

- a restructuring of the P.L. 480 to emphasize coarse grain exports as well as wheat to begin the process to day of building additional foreign demand base for the future
- a substantial capitalization of the revolving export funds authorized in the 1981 Farm Bill
- increased use of both the CCC guaranteed credit program with the "blended export credit program" to meet unfair and subsidized export competition
- the development of a U.S. export credit corporation that has been and is being effectively used in various competitive countries to provide a measure of financial protection to private, commercial exporters from any future disruption in U.S. grain export trade
- the initiation of the negotiations with the Soviet Union for a new and expanded long-term grain agreement, notwithstanding the recently enacted law that provides for the "sanctity of agricultural export contracts for 270 days"
- better U.S. Government interagency coordination on overall U.S. export trade interest and potential in order to prevent the repetition of the breakdown in negotiations over PRC textile exports to the United States that could well jeopardize U.S. grain exports to the People's Republic of China
- a concerted and coordinated effort to revamp the trading rules and practices apparently sanctioned by the General Agreement on Tariffs and Trade to allow the United States to obtain meaningful and more immediate resolutions of trade disputes with major trading partners such as Japan and the European Economic Community

Unless an augmented and aggressive U.S. grain and agricultural program is implemented now, the beneficial effects of the PIK program in reducing grain and other agricultural production in the United States will be negated by the continued expansion of production in competitive countries. In addition, these competitive countries are expanding grain and agricultural exports in order to minimize carryout stock levels and capture markets that were, in the past, traditional export outlets for U.S. grain and agricultural exports.

We appreciate having this opportunity of presenting our views and position on the PIK program for 1983, as well as offering our suggestions about the pressing requirements to move aggressively ahead with an expanded corn and agricultural export program. We will be pleased to attempt to answer any questions that you and the members of the Subcommittee may have at this time.

---

CORN GROWERS
[illegible] Association

Suite 201
1015 15th Street, N.W.
Washington, D.C. 20005
Telephone: (202) 371-1450

The Honorable John R. Block
Secretary of Agriculture
Washington, D.C. 20250

January 21, 1983

Dear Jack:

Following your announcement on January 11, 1983, of the details and mechanics of the "payment-in-kind" program for corn and grain production in 1983, the Executive Committee of the National Corn Growers Association (NCGA) and the state corn growers association presidents considered the PIK program in a conference telephone call on January 20 1983. The National Corn Growers Association unanimously voted to support the PIK program for the 1983 corn season, which is an additional incentive for farmers to reduce production in addition to the basic set-aside program.

Our organization will also urge our membership and other corn farmers to examine carefully and closely the benefits and incentives of the comprehensive 1983 corn production program in order to determine the desirability of participating in it. Nevertheless, the National Corn Growers Association supports the participation in this 1983 program as an immediate measure to begin to bring U.S. corn supplies back into line with both domestic and foreign demands for corn.

Our support for this 1983 PIK program is tempered by only two concerns: (1) the complex and detailed nature of the implementation of the program within a thirty-day period of time; and (2) the variability of conditions and circumstances that will prevail in various locations and regions of the overall U.S. corn production areas. It is for these reasons that the NCGA Board of Directors urge you to instruct the national and state-level officials of the Agricultural Stabilization and Conservation Service (ASCS) to consult closely and to work effectively with U.S. corn farmers to tailor the final PIK program provisions and details to any unique circumstances of the individual countries and states. If this suggestive method of operation and implementation by the local and state ASCS offices with U.S. corn farmers is fully implemented, our organization feels confident that U.S. corn farmers will respond to circumstances that require the initiation of a "payment-in-kind" as an additional incentive to reduce corn production in 1983.

We appreciate having the opportunity of working with you and your staff on the preliminary consideration of and the broad thrust of the provisions for the 1983 "payment-in-kind" program. Coupled with your initiatives in expanding corn and grain exports as well as meeting the uncompetitive practices of several grain exporting countries, the results of these efforts in 1983 should produce the circumstances in which U.S. corn farming again becomes profitable in 1984.

Sincerely,

Jack

Jack Parsons
President

MLH:mj
cc: NCGA Board of Directors

## STATEMENT OF RALPH WEEMS, JR., FIRST VICE PRESIDENT, AMERICAN SOYBEAN ASSOCIATION

My name is Ralph Weems and I am a farmer from West Point, Mississippi where I produce soybeans and wheat. I appear here today in my capacity as First Vice President and President-elect of the American Soybean Association. I am pleased to be able to present ASA's views on the recently announced "payment-in-kind" (PIK) program and to offer ASA's suggestions for increasing soybean profitability in the future.

The American Soybean Association is a national, volunteer, non-profit, farmer-controlled, single commodity association organized to assure the opportunity for a profitable soybean industry. ASA has approximately 20,000 dues-paying members and is supported by over 500,000 soybean producers who voluntarily invest in ASA programs through 23 separate statewide soybean checkoff programs. ASA only represents soybean farmers. ASA seeks to maintain soybean profitability through its foreign market development, research, producer and public information, and government relations programs.

ASA commends the Administration for devising and implementing the PIK program for corn, cotton, wheat and rice. We realize many still have concerns with the program, but it appears to ASA to at least be a program which promises to help significantly in the effort to reduce the burgeoning surpluses which plague the corn, wheat, cotton and rice industries. Of course, the effectiveness of the PIK depends completely on the degree to which farmers participate in it, but our surveys have shown most farmers intend to participate at the maximum extent they can. If so, the program should go a long way toward restoring profitability in those commodity sectors involved in the PIK.

We are also thankful the Administration saw fit to close the loophole in the originally-announced PIK program which could have brought about a significant increase in 1983 soybean plantings. I refer to the unpaid setaside provisions in the original PIK rules which would have allowed between 3.75% and 5.6% of program crop bases to have been planted in soybeans in 1983. Our calculations predicted the loophole could have resulted in as much as 3 million more acres of soybeans being planted in 1983 than were planted in 1982. The production from those acres could have reached 90 million bushels and caused an oversupply situation in the soybean sector.

In requesting the Administration to close the PIK soybean loophole we would have preferred the base acres be bought out of production through payments of CCC grain, rice, or cotton. However, USDA chose to close the loophole by expanding the unpaid setaside requirements for PIK participants. We regret plugging the soybean loophole may slightly reduce the attractiveness of participating in the PIK, but feel the changes were absolutely essential. Otherwise the PIK program could have resulted in the oversupply situations of corn, rice, wheat and cotton being transferred to the soybean sector. Again we thank the Administration for agreeing to ASA's request to close the soybean loophole.

Many producers have questioned why soybeans were not included in the PIK program. We believe the facts are clear why soybeans were never even considered as far as we know for inclusion in the PIK program.

## Soybeans Are Not Significantly in Surplus

According to USDA's World Agricultural Outlook Board, the following supply-demand relationships exist for corn, wheat, cotton, rice, sorghum and soybeans:

| Commodity | Projected Usage | Projected Carryover | Percent Carryover | Days Supply |
|---|---|---|---|---|
| Corn | 185.40 mmt | 86.00 mmt | 46.40% | 169 |
| Wheat | 67.40 mmt | 40.90 mmt | 60.70% | 221 |
| Cotton | 2.26 mmt | 1.83 mmt | 80.97% | 296 |
| Rice | 6.44 mmt | 2.79 mmt | 43.30% | 158 |
| Sorghum | 16.17 mmt | 12.75 mmt | 78.80% | 288 |
| Soybeans | 58.65 mmt | 10.61 mmt | 18.10% | 66 |

As the above data clearly shows, the soybean sector is not suffering the level of surpluses which afflict the other major commodity sectors. Soybean usage during the current marketing year is projected to reach a record 2.155 billion bushels. Since the beginning of this soybean marketing year, USDA has already lowered the projected soybean carryover from 450 million bushels to 390 million bushels and we believe we will see the carryover decline even further if the world economy begins to improve, and if we get the needed export assistance we will suggest later.

## There are Insufficient CCC Soybean Stocks to Offer a Soybean PIK

As of January 14, CCC-owned stocks of soybeans totaled only 14.2 million bushels. This low CCC stock level is the result of the market oriented policies long in effect for our industry. Assuming the same PIK payment rate in effect for corn (80% of base yield) and a national average yield of 32.2 bushels per acre, the 14.2 million bushels of soybeans in CCC stocks would have been sufficient to "buy out" only 551,242 acres of soybeans. That would be an acreage reduction of only 0.76% of 1982 U.S. soybean acreage with a yield of approximately 17.7 million bushels, less than one-percent of U.S. soybean production in 1982. Thus, if USDA had even considered offering a soybean PIK, it would have had insufficient stocks to offer a meaningful program.

## ASA Would Have Opposed a Soybean PIK

Because of our longstanding commitment to market-oriented domestic soybean programs, ASA would have opposed a soybean PIK had one ever been suggested by USDA. We continue to believe the soybean sector is best served by allowing the free market price paid for soybeans to be the prime factor considered by farmers when deciding whether or not to grow soybeans. Rather than opting for a PIK program or other production control mechanisms, ASA voting delegates last August reaffirmed their support for the market-oriented policies now in effect. Based on the fact that soybeans remain the commodity least in surplus and with the best chance of a quick price recovery, we are confident the market-oriented approach soybean producers and the Administration have chosen is best for the soybean sector.

While ASA does not favor a PIK program as a means of reducing soybean production, there are several actions we feel the government can take to hasten price recovery for soybeans and soybean products. One major reason soybean prices are low is the huge surplus (550,000 mt) of soybean oil that exists in the U.S. This surplus, while partly the result of the world recession, is primarily the result of the predatory soybean oil subsidy programs being offered by Brazil, Spain and Argentina. Through the use of differential taxes, tax rebates, direct restitutions and other subsidy schemes those nations have been able to take away major U.S. soybean oil markets. For example, during the years 1977-1979, the U.S. averaged sales of $155 million worth of soybean oil each year to India. In 1980, Brazil began subsidizing soybean oil sales to India, and U.S. sales to India dropped by over 85% to only $22.1 million. Presently, Brazilian soybean oil is selling from $10 to $25 less per ton (c.i.f. Bombay) than U.S. oil exporters can afford to sell it. Similar conditions exist in the other major oil markets of Egypt, Morocco and Turkey.

Since soybean oil historically accounts for about 40% of the value of soybeans the current low U.S. soybean oil price is having a very depressing effect on cash soybean prices. Each 1¢ per pound difference in the price of soybean oil translates into an 11¢ per bushel difference in the cash soybean price. If the soybean oil price was 25-cents per pound as it was 30 months ago rather than the 17-cent per pound it is currently worth, soybeans would be selling well above $6.50 per bushel.

Incidentally, the current value of soybean oil is the lowest in real terms than it has been in this century.

In order to counter the export subsidy programs being offered for soybean oil by other nations, ASA urges Congress and the Administration to take the following actions:

## 1) Implement an Export PIK Program For Soybean Oil

USDA should implement a soybean oil export equalization program similar to the recently announced wheat flour sales program to Egypt. CCC can use a portion of its 14.2 million bushel soybean stocks to implement the soybean oil export program in the same manner that CCC wheat stocks will be used to implement wheat flour sales to Egypt. Our analysis indicates such a program could result in U.S. value-added soybean oil sales of 500,000 mt to India, 200,000 mt to Egypt, 100,000 mt to Turkey, and 140,000 mt to Morocco for a total of 940,000 mt of soybean oil worth approximately $375 million. The amount of CCC soybeans that would be needed to effect the 940,000 mt of sales would be only about 24% of the CCC's current soybean inventory.

In fairness, I must point out ASA does not endorse the above proposal lightly. We have historically opposed such non-market-oriented programs. However, the fact remains we were driven out of major foreign oil markets by the subsidies of other nations, and we can either choose to forever lose those markets or compete for them. We have finally decided the only way to regain our lost markets and force Brazil, Spain, Argentina and other nations to compete fairly without subsidies is to implement our own program. Hopefully, the program we have described will convince the other nations to cease their subsidizing. If they do we will be the first to call for an end to the proposed U.S. export equalization program. For the present, however, we call on the Administration to immediately offer a soybean oil export PIK to allow the soybean sector to regain its rightful markets abroad and to expand U.S. value-added exports.

## 2) Expand P.L. 480 Title I and III Soybean Oil Allocations

One area especially troublesome to the American Soybean Association is what it believes to be the inequitable allocations provided soybean oil in Titles I and III of the P.L. 480 program in recent years. During the period FY 1979-FY 1983, Title I and III allocations for soybean oil averaged 131,500 mt per year or 3% of the total food tonnage exported under Titles I and III. During the same period an annual average of 353,000 mt (9%) of rice, 3,048,000 mt (76%) of wheat/wheat flour, and 481,000 mt (12%) of feed grains were shipped under Titles I and III of P.L. 480.

Since soybean oil is the second most requested commodity by P.L. 480 recipient nations and soybeans are America's largest cash crop, we believe we are not receiving our fair share of P.L. 480 allocations. Since soybeans are by far the least costly major commodity with respect to federal price supports ASA believes Congress can and should at least provide us with a fair share of P.L. 480 allocations to assist in effecting the export of soybean oil. We ask that the allocations for soybean oil in FY 1983 be increased from 219,000 mt currently prescribed to a minimum of 300,000 mt with the amount allocated in FY 1984 and future years being a minimum of 350,000 mt.

3) Require P.L. 480 Recipient Nations to Purchase More of Their Commercial Imports From The U.S.

One way the U.S. can effect increased commodity sales without any additional cost is by requiring P.L. 480 recipient nations to purchase more of their commercial commodity imports from the U.S. This year, Egypt will receive $250 million under Titles I and III of the P.L. 480 program. That's over one-third of the total funds allocated under Titles I and III. Yet, Egypt will import almost 370,000 mt of vegetable oil, only one-third of it from the U.S. Similarly, Morocco will import over 140,000 mt of vegetable oil, only 6,000 mt of it from the U.S. Yet Morocco will receive $25 million under the P.L. 480 program. In total, during the 1981-82 marketing year the nations receiving Title I and III P.L. 480 loans imported 1,484,000 mt of vegetable oil of which only 618,000 was from the U.S. That means the nations receiving P.L. 480 are buying 866,000 mt of vegetable oil from sources other than the U.S.

ASA believes it is time for the U.S. to get a little tougher on P.L. 480 recipient nations and require them to purchase greater shares of their commercial imports from the U.S. After all, can a nation with an annual budget deficit of $200 billion and a trade deficit of $60 billion afford to loan or grant billions of dollars to other nations while those nations import their commodities from other nations? We doubt it.

4) Combine P.L. 480 Loans With Blended Credit and Loan Guarantees in Mixed Credit Arrangements

France has long combined humanitarian loans or grants with commercial credits in "mixed credit" arrangements in order to out-compete the U.S. and other exporters for markets in developing nations. Through such "mixed credit" arrangements, France lowers the effective interest rate on the overall loan below those available from other nations.

ASA believes it is time USDA adopts the use of mixed credits to compete for markets in the developing world. By offering P.L. 480, blended credits, and commercial credits in a mixed credit package, USDA can lower the effective rate on the overall package. For example, if the U.S. was to offer a nation a $120 million mixed credit package composed of $20 million of P.L. 480 Title I (2% interest) and $100 million of GSM-103 mixed credits (8.8% interest) the effective rate on the overall package would be 7.67 percent. That makes sense to us.

5) Utilize Soybean Oil as a Carrier for Pesticide Applications on National Forest and Range Lands

In our attempt to develop expanded demand for soybean oil, ASA has allocated several thousand dollars of grower funds this year to develop new uses for soybean oil. Among the areas we are exploring is the use of soybean oil mixed with diesel as a motor fuel. We believe soybean oil can be effectively used in small amounts to control explosive dust concentrations in grain elevators. We also believe soybean oil shows promise as an economical, non-explosive fuel for use in the thousands of kerosene heaters now being used in American homes. All of these would help greatly to reduce the soybean oil surplus and restore profitability to soybean production.

One place soybean oil has already been proven to be economical and effective is as a carrier for pesticides. Field tests during 1981 and 1982 in the South have shown that soybeans and cotton treated with pesticides applied in soybean oil through an ultra-low-volume applicator yield greater than those where pesticides were applied conventionally in water at high volumes. Since soybean oil does not evaporate as quickly as water and since it does not "bead up" on waxy plant leaves or insects, the pesticide is afforded a better opportunity to be absorbed into the target pest or weed and do its job. Also, since only one-half gallon of soybean oil is needed per acre versus three or four gallons of water much less time is spent refilling the sprayer. This is especially critical for aerial application where the airplane must land to refill.

One way the U.S. Government can help soybean growers is by directing the Forest Service and the Bureau of Land Management (B.L.M.) to adopt the use of soybean oil where practicable as a carrier for pesticides applied on land under their control. Not only should the use of soybean oil as a pesticide carrier on federal lands reduce federal spraying costs and increase pesticide efficiency, but it would also help the soybean industry to return to profitability. We will appreciate any assistance the Committee can provide us in seeing soybean oil used as a pesticide carrier on federal lands.

In conclusion, ASA wishes to again stress the fact that of the major field crops, soybeans are in the best supply-demand situation. We do not need a PIK acreage reduction program or other production control programs. Instead we need assistance to expand our exports of soybeans and soybean products, especially soybean oil. We need to be assisted to better compete with our subsidizing competitors. We respectfully request more equitable P.L. 480 allocations for soybean oil and we urge a tougher approach toward P.L. 480 recipient nations with respect to their commodity imports. Finally, we believe the federal government can help us to expand new uses of soybean oil. We don't want a handout to producers nor do we wish to turn away from the market-oriented policies long in effect for the soybean industry. Just give us a hand to market our production and the soybean sector will again be profitable.

Thank you. I will be happy to answer any questions.

## STATEMENT OF RALPH S. NEWMAN, JR., PRESIDENT
## RICE MILLER'S ASSOCIATION

My name is Ralph S. Newman, Jr. I am President of The Rice Millers' Association (RMA). Established in 1899, the RMA represents independent and farmer-owned cooperative rice milling firms with facilities in Arkansas, California, Florida, Louisiana, Mississippi, Tennessee and Texas. RMA Members process all of the rice produced in the United States and sell significant quantities of that rice directly into export markets. I am also the Chief Executive Officer of American Rice, Inc. (ARI), a farmer-owned Texas and Louisiana rice milling and marketing cooperative headquartered in Houston, Texas.

I am accompanied today by J. Stephen Gabbert, Executive Vice President of RMA. Mr. Gabbert is Chief Executive Officer of our Association. He recently testified in support of similar legislation considered favorably by this Subcommittee in the previous Congress.

We appreciate this opportunity to comment on those parts of S-14, S-36 and related similar legislation that we feel address the rice industry's current problems and which hold the potential to help us deal with what we believe for the foreseeable future to be continuing difficulties for our industry.

High levels of exports are vital to the U.S. rice industry. Annually more than two thirds of our rice crop needs to find foreign markets. After a period of sustained growth and expansion of our commercial markets world-wide, we have recently experienced a sharp reversal. Currently, we face the worst marketing situation for the industry in more than a decade. As a result, all components of our industry are suffering. Export demand is down. Prices are low. Many of our farmers are in serious financial trouble. Both independent and cooperatively-owned mills have had to severely reduce their processing schedules or simply close altogether. The industry is operating at less than 50% of capacity. Our related service and support industries, ranging from fertilizer and chemical dealers to aerial applicators on the input side, to trucklines, container manufacturers and our ports on the output side, are all also suffering as a result of the current sharp decline in U.S. rice exports.

Simply stated, U.S. rice today is non-competitive in most export markets. For example, good quality Thai rice has been recently selling for $130 - $150 per metric ton less than comparable quality U.S. rice. Current world price levels are considerably below U.S. support prices and our farmers' costs of production. They are below the cost of production in many other countries as well.

The competitive position of U.S. rice has not suddenly changed because of significant technological change on the part of our competitors. Our industry certainly has been affected by those factors that have tended to adversely affect U.S. agricultural exports in general. Among the more significant of these I would include the world-wide recession, high interest rates, the strong dollar and an extended period of favorable weather resulting in increased production and reduced import demand. The revolution in Iran and more recently, the Iraq-Iran war, have particularly hurt the U.S. rice industry which looks to that area of the world as major market.

We recognize that these kinds of adverse economic conditions cyclically occur. Our industry is not particularly unique in being adversely affected by such events.

Against this backdrop of hostile economic conditions our industry, however, is forced to compete not only with low-priced foreign government agency sales but also against heavily subsidized rice from such sources as the EEC, Japan and Taiwan. In 1982, these three areas alone will dump with impunity about one and one half million metric tons of rice on an already very thin international market. This represents over 15% of the total quantity of rice traded annually in the international market. In addition, the competitive position of U.S. rice has been adversely impacted by the increasing export sales of the governments of Pakistan, Burma and Thailand. Effectively, these three countries account for over 40% of the world trade in rice. Their government agencies have policy flexibility to directly sell their rice into the export market at whatever price level is found necessary. It is impossible for U.S. rice to compete under these adverse circumstances. That's not speculation. Our attempt to do so over the past couple of years has literally brought our industry to its knees.

Without help, we expect that the future U.S. rice outlook will continue to deteriorate. Our projections indicate that in the absence of any export stimulation program, U.S. rice exports for the 82/83 marketing year will total only about 2 million metric tons. Such an export shortfall will force Commodity Credit Corporation to acquire, under the price support program, more than 45,000,000 cwts. of 1982 crop rough rice at a projected cost of well over $400 million. When added to the 19,000,000 cwts. of rough rice already in CCC inventories acquired from the 1981 crop, those inventories would equal almost half of the total rice crop produced in 1982. Aside from the large budget outlays for deficiency payments and loan forfeitures that will continue with such quantities overhanging the market, it will be extremely difficult to find storage space for such extraordinarily large quantities of rice. Farmers, consequently, will have great difficulty in harvesting their 1983 crop.

The new PIK acreage diversion program recently announced is not a solution to our problems. We expect participation among rice farmers in all production areas of the U.S. to be extremely high in this program. I won't be surprised if the maximum voluntary 30% acreage reduction is subscribed in almost every county or parish. That program, however, will only tend to reduce our production of the 1983 crop. It does not address the problem of why we have these excessive quantities of inventory to begin with. It seems to me that while such a program temporarily provides some additional income to growers (and I might add it correspondingly adversely affects the income of all of the related agribusiness industries) it is obviously not a program that can be continued once those inventories are reduced. During this period of reduced plantings we simply continue to permit our foreign competitors to maintain or expand their current aggressive marketing actions.

During the past several years the U.S. share of world trade in rice has declined from an average of 23% to only 15%. Everyone in our industry understands that cyclically the level of this trade will vary. That depends upon many circumstances, the principal one of those being weather. During certain periods, expansion will be called for and during other periods, contraction. What has actually happened in the past few years is that some contraction has been called for because of enhanced production. Our foreign competitors have, through various means, actually increased their traditional share of world trade during this period. That has shifted all the burden of supluses and the consequential production reduction to us. Continuing the trend the result is for us to reduce our industry to the point where we produce only for our domestic market and few selected foreign customers.

Considering the situation our industry is now in, the export stimulation thrust of S-14, S-36 and similar legislation is exactly the kind of assistance we urgently need to help stabilize farm income, reduce our inventories, expand exports and minimize budgetary expenditures through deficiency payments and commodity acquisitions in our farm programs. Our industry's programs are almost altogether in the export market, not in the domestic area. We need to move more rice out of the country and to regain our traditional share of our export markets.

The Secretary of Agriculture currently has the necessary authority under the CCC Charter Act to implement a Payment-In-Kind (PIK) export program similar to the export bonus provisions of the legislation being considered. A similar PIK export program was implemented by Secretary Benson in 1958 during a similar period of commodity oversupply. The gap between U.S. and world prices was bridged by using CCC stocks. USDA, at that time, successfully used the CCC surplus to move burdensome inventories.

The PIK export program concept is simple in operation. It's been tried, tested and found successful in accomplishing its objectives. It costs nothing unless it's used. It costs nothing unless it's successful.

We recognize that a PIK export program is essentially an export payment program We believe, however, that this is a permissible program under Article XVI of the GATT since it will be used to maintain an equitable and traditional share of the world market. The objective of such a program for the rice industry would be to recapture our share of the market which has been eroded by subsidized competition and predatory pricing policies of foreign governments.

As an example of the kind of policies that eroded our market share I'd like to point out that the governments of Taiwan and Japan, for example, pay their rice farmers support prices that are three to five times world price levels. Large surpluses have consequently been produced. Rather than face the internal political consequences of implementing acreage reduction programs, their surpluses have been simply dumped on the world market. They've effectively exported their internal oversupply and inefficiency problems. Unfortunately, U.S. rice farmers, millers, exporters, related agribusinesses and taxpayers have been adversely affected. While Taiwan and Japan have continued to produce surplus rice and dump it into the international markets, we in the U.S. have been reducing production, building surplus stocks and losing export markets.

Mr. Chairman, our industry realizes that further adjustments are needed in the level of U.S. rice production. As I have indicated, voluntary participation in all of the Administration's current farm programs will be at near maximum. Those actions will help some. However, for the industry to cope with subsidized foreign competition and predatory pricing tactics we need an export oriented program such as the PIK export concept to serve as an interim measure that will restore our competitive position in the international marketplace. Acreage reduction and diversion and adjustments to loan and target prices, without an export stimulation program, will not resolve our industry's problems. Lack of decisive action will, "in our opinion," unfortunately result in a greatly diminished and less efficient rice industry.

We commend the Subcommittee's consideration of this problem and express our thanks for the opportunity to testify.

## STATEMENT OF NEIL SAMPSON, EXECUTIVE VICE PRESIDENT
## NATIONAL ASSOCIATION OF CONSERVATION DISTRICTS

Mr. Chairman, Members of the Committee, the National Association of Conservation Districts (NACD) is a private, non-profit, non-governmental organization representing the nearly 3000 soil and water conservation districts in all 50 states, Puerto Rico and the Virgin Islands. Conservation districts are established under state laws to develop and carry out programs of soil and water conservation within their boundaries. Districts are providing services to over 2 1/2 million cooperating landowners.

Normally, this association does not concern itself with the commodity programs of USDA. We do not have the time or expertise to research these issues. We do, however, attempt to evaluate the soil and water conservation implications of commodity programs and this is what we will be addressing today.

There is no question but what America's cropland is being subjected to some of the most serious erosion conditions of recent years. Many thousands of acres of marginal cropland have been plowed up and brought into production since 1974. These high erosion levels are well documented in the Nationl Resource Inventories completed by the Soil Conservation Service in 1980. New data taken in 1982 are expected to show even more serious problems, particularly in some of the wheat-growing areas of the Great Plains.

Hopefully, the 1983 acreage reduction and land diversion program, supplemented by the Payment-in-Kind Program, will take many thousands of acres of this marginal land out of crop production. Idling the land, however, will not solve the erosion problems. This land must be properly treated by establishment of a vegetative cover in order to protect it from wind and water erosion.

Unfortunately, we are already getting reports from field offices that farmers are being told in some counties to "not worry" about this conservation requirement and just do their best to control weeds on the set-aside lands. That is not enough, and USDA ought to direct the ASC Committees in each county to consult with the conservation district to establish practical, yet effective, conservation treatment standards for the set-aside.

Additionally, it is hoped that farmers will use the time when the land is out of production to establish the necessary conservation practices on the land to provide long-term erosion control. It would seem appropriate to use payment in kind as a supplement or substitute for ACP payments to assist in sharing the costs of installing these practices. This would not result in a dollar drain on the ACP program, would give the chance to move more of the surplus commodities, and would open new opportunities for taking advantage of an otherwise very slow construction year in the farm economy. Since PIK is not limited to a per-farm yearly payment limitation of $3500 as is ACP, much conservation work could be accomplished.

We also feel that there should be a 15 percent PIK bonus above what the farmer would otherwise earn for his set-aside for those farmers who are already participating in the PIK program, and who are willing to establish and maintain an approved conservation program on their entire farm acreage.

This could be accomplished by having the local conservation district, using the technical advice of the Soil Conservation Service, establish practical local standards for approved soil conservation systems. Our districts have been working with these ideas for many years and could, we think, gear up to do this very quickly. They could then provide a certification to ASCS so that ASC could process the appropriate payments to farmers who applied for and qualified for the bonus. This would greatly expand the conservation implications of the PIK program, and would address itself to the conservation needs of the great body of farmland that will not be involved in the set-aside.

This would be a version of the "Green Ticket" idea that NACD has supported for many years. USDA recognized the validity of this approach in the Resource Conservation Act, and, at one point, indicated a desire to test this approach. (See the 1981 Program Report and Environmental Impact Statement, Revised Draft, page 6-23) Now would be the right time, and PIK would be the right program, for conducting such a test.

We urge you to use your influence with the Department to get them to test this "conservation bonus" idea during the 1983 PIK program. Conservation districts across the country stand ready to help implement such an effort, which we feel would be a major contribution to our three major goals: increased financial stability for farmers; reduction of the price-depressing surplusses; and conservation and wise use of our soil, water and other natural resources.

## STATEMENT OF RICHARD G. FIFIELD, ALABAMA FARM BUREAU FEDERATION

Thank you, Mr. Chairman. I am Dick Fifield of the Alabama Farm Bureau Federation. I appreciate the opportunity to speak with this committee today. Agriculture in Alabama is in serious trouble. We are not unique in this respect. We do, however, have some problems in the Payment in Kind program which are unique; but before I discuss these, I should like to say that the many farmers with whom I have discussed the PIK program are in agreement with the principle and the objectives of the program. Those who are eligible and find the terms suitable will participate.

Mr. Chairman, our research department in the Alabama Farm Bureau Federation has developed computer programs to enable the farmers who choose to use them, using actual figures from their farming operations, to examine their optimum positions for PIK participation in any program crop. We have just begun processing and have already established that most eligible operations will find it advantageous to participate. In fact, in nearly every instance, the 100 percent acreage reduction with an appropriate bid, will be the producer's best option. I mention this because herein lies one problem that we are experiencing with the program.

Simply stated, in South Alabama, wheat requires fertilization and herbicide treatment within the next fifteen days, if we are to get optimum yield. Each day fertilization is delayed reduces yield significantly. Also, corn land must be prepared for planting; herbicide, fertilizer and land preparation amount to nearly two-thirds of the expense of producing this crop. These operations must be completed in over one-half of the state before March 15. Cotton, while not as critical,, requires land preparation, herbicide and fertilizer application at or very close to the announcement date for the PIK program in South Alabama. Herbicides used in the culture of cotton must be placed well in advance of the actual planting. The only program crop which can be planted without this time restraint is grain sorghum and there is no market for grain sorghum in Alabama.

As I mentioned earlier, in a majority of cases, a 100 percent acreage reduction would provide the optimum economic opportunity. The only way that a producer can participate in this program is to submit his bid but then go ahead and fertilize 50 percent of the planted wheat base, plant 50 percent of the corn, and prepare 50 percent of the cotton land. If the 100 percent bid is accepted, these costs incurred will be lost to the producer. This will remove nearly all of the economic advantage which should accrue to the producer in the PIK program.

I recognize that we are operating this program under severe time restraints, and that an adjustment is needed in the signup date in the program announcement to accommodate the needs of southern farmers. However, in the interest of fairness, it would seem appropriate to seek some suitable adjustment in the program to place southern farmers on an equal footing with those producers in cooler climates who will have time to participate in the program with full advantage.

A similar but much simpler problem exists in the PIK entitlement dates in the southeast, particularly for corn. Southern counties harvest corn from early to mid-July. Our entitlement date is October 1. The entire South, including Mississippi, Alabama, Georgia, South Carolina and North Carolina have this entitlement date. This should be adjusted administratively to more closely approximate actual harvest dates. Otherwise, southern farmers will have to maket two crops--their actual harvest, then later their PIK crop. The entitlement dates were done fairly on a county by county basis for Texas. There should be no trouble accommodating other southern states in a similar fashion.

A more serious problem is the storage situation in the South. Producers who wish to receive Payment in Kind in grain will have to travel long distances and incur large transportation costs to receive their grain. Let me illustrate: CCC approved uniform storage in eight southeastern states is 247 installations, 818,000,000 bushels; U.S. storage is 6 installations, 217,000,000 bushels. Therefore, the South possesses less than 3 percent of the total storage. At harvest, most of these are dedicated to soybeans and would not have capacity for PIK grains.

In Alabama, we have only 16 CCC approved facilities, 14,645,000 bushel capacity. Our producers will not receive their grain in their county or in an adjacent county as suggested in the announcement. The on-the-farm storage reflects much the same story. The same southern states have slightly over 5 percent of the nation's on-farm storage; and commercial storage is also totally inadequate.

Our concern here, of course, is obvious. Southern farmers who wish to receive grain will not be able to obtain surpluses economically. This factor must weigh heavily on any farmer's decision to participate in the program, partake in the program's economic benefits, and contribute to the overall success of the program.

The freezing of the period for establishing base for wheat, corn and grain sorghum and rice to 1980-81 will have a strong adverse effect in achieving the desired program objectives, particularly in wheat. Nearly every southeastern state has increased wheat acreage over the period 1979-1982. In contrast, all but one midwestern and western state has decreased wheat acreage. Improved methods of minimum tillage and double-cropping of winter wheat after soybeans have provided the catalyst which spurred these acreage increases. It is common practice to fertilize for both crops in the fall when the wheat is drilled. Southern farmers, who are in tight cash flow situations and who have already planted, should not be denied program participation which includes their 1982 expanded wheat plantings. The stated objectives of orderly reductions of wheat and feed grain surpluses will be enhanced and a soybean glut avoided if proper adjustments in the base are made now. Southern farmers who have increased acreage are now being denied program participation because they have adjusted their operation to new and improved farming methods, not because they were negligent in registering their base. New legislation should include the 1982 wheat and feed grain acreage in the base.

Mr. Chairman, I know that it is the intention of this committee and the Department of Agriculture to have this program work in all counties in this nation. We recognize the difficulty of achieving uniform administration in this very complex program.

Last evening, I received a telephone call from a farmer in South Alabama who had attempted to contract his corn base at his county ASCS office. He was informed by his county office that he had recorded base in 1979, 1980 and 1982, but there was not a record for 1981. Under the rules, this reduced his base drastically. He claims to have filed and has sales receipts and production records which verify that he did plant the crop. But today he is being denied participation in the PIK program because of a technicality. Procedures must be revised to encourage program participation not to exclude participation on technicalities. Our state ASCS office says that they cannot do this without a revision of the rules.

We favor an export PIK and other trade initiatives such as blended credit which will once again allow American farmers to compete throughout the world with other farmers; not with other farmers and their government.

Mr. Chairman, in closing, I would like to thank you for your persistence and for your interest in improving the PIK program and in providing these initiatives to help solve the problems of farmers. We have made several other suggestions regarding a floor price, consideration for double-cropping and the consolidation of farm base acres under PIK and appreciate your willingness to consider these in your bill. Please continue in these efforts and help us to fine-tune this needed program to make the program more catholic in its application and availability. Thank you very much.

American Cotton Shippers Association,
*Fresno, Calif., February 14, 1983.*

Hon. Thad Cochran,
*Chairman, Subcommittee on Agricultural Production, Marketing and Stabilization of Prices, Washington, D.C.*

Dear Senator Cochran: Attached for inclusion in the record of the February 3, 1983, Hearings of the Subcommittee on the Payment In Kind Program is my letter to Secretary of Agriculture Block of February 10, expressing the Association's views on the USDA's recently announced "Special Program of Payment In Kind For Acreage Diversion for 1983 Crops of Wheat, Corn, Grain Sorghum, Upland Cotton and Rice."

We also wish to express our belief that the establishment of minimum values for PIKs could undermine the effectiveness of the program, since the price of competitive foreign cottons are appreciably below the U.S. loan level of 55 cents per pound.

We also wish to go on record in support of the proposed amendment to the tax code whereby PIKs will be taxable when sold, not when received.

Respectfully submitted.

Samuel T. Reeves,
*President, American Cotton Shippers Association.*

Attachment.

---

American Cotton Shippers Association,
*Fresno, Calif., February 10, 1983.*

Hon. John R. Block,
*Secretary, U.S. Department of Agriculture,*
*Washington, D.C.*

Dear Secretary Block: On behalf of the American Cotton Shippers Association, whose membership markets approximately 80 percent of all cottons produced in the United States, I wish to commend you and the Department for bold leadership in attempting to address severe American agricultural problems. Your tasks are formidable and your desire for a recovery in farm prices is to be applauded.

In addition, I wish to sincerely commend the Department of Agriculture staff for their untiring efforts and time made available to our organization in the presentation and consideration of our views during the development of the Payment In Kind program. By including our organization in this process, it has aided our understanding of the purposes and mechanics of the program, enabling us to communicate this not only to our membership but to the growers as well.

As an industry, we realize a program of the scale and imaginativeness of Payment In Kind, developed during a period of severe economic stress, when domestic and world markets for United States agricultural products were rapidly deteriorating could prove more advantageous to certain regions of the country and certain segments of the industry. In light of this the American Cotton Shippers Association respectfully requests that the Department reconsider certain aspects of the program and adopt specific safeguards to preserve short-term fairness and long-term markets.

In the interest of presenting a comprehensive and integrated set of proposals, we would like to make these specific short term suggestions and compliment them with a framework for a longer term solution to our present problem.

With respect to the short term issues, we must question the inclusion of strong demand, non-surplus cottons in the program. A vivid example of this is the "Acala" variety grown in the San Joaquin Valley of California. Reducing the supply of these desirable qualities of cotton will deprive domestic and foreign mills of cottons which the United States producers have constantly supplied in significant quantities over the years. The United States textile industry is effectivley precluded from importing growths similar to San Joaquin Valley cotton and could be forced to secure synthetic substitutes for blends requiring this critical type of cotton. Also, our long sought and successfully developed export markets will be forced to look to other cotton producing nations or synthetics to obtain these highly marketable cottons. It is our belief that the competing growths will rise to the challenge and attempt to consolidate this windfall at the expense of future United States exports. Thus, the result of the PIK program with respect to these strong demand, non-surplus cottons may very well be counterproductive to these readily marketable cottons. This example also underscores that cotton, unlike certain feed grains, is not interchangeable.

Another very obvious shortcoming of the PIK program as outlined is the apparent penalty leveled towards the producer who has freely and successfully marketed his previous years production. This grower, with no loan cotton, stands to receive an unknown quality and quantity which puts him at a marketing disadvantage on his

PIK. This egregious program provision which will benefit growers not selling their cotton could encourage the efficient to abandon the market place and encourage them to cycle their crop through the loan.

Also we must question the rationale of giving marketers of Form G cotton special privileges. Among these previleges are:

1. The ability to ascertain on March 11 exactly what cotton they have available for marketing upon the release date.
2. The ability to enter additional quantities of cotton to the Form G loan prior to March 11 assuring a greater selection of qualities to be available on the release date.
3. The ability to prearrange marketing shipping dates on received PIK cotton to fully utilze the government paid five month storage period.
4. The apparent ability of a Form G loan holder to force growers to maintain affiliation in order to receive local loan cotton as PIK's whether or not they had previously participated in acreage reduction program.
5. CCC will reimburse the Cooperative for any reasonable out-of-pocket expenses (i.e. computer software cost, overhead and salaries) which are incurred by the Cooperative while participating in the Payment-In-Kind Program as an agent of CCC.

These advantages are being given to the very organizations who are not without responsibility for the current troublesome stocks situation. Assuming approximately 25 percent of all cotton is first handled by cooperatives, the latest USDA figures (February 2, 1983) indicate 6,820,722 in the loan of which 48.5 percent is in Form G loan or more vividly a suggested excess of almost 1,500,000 bales in Form G stocks.

The long term solution to our continuing surplus problems we believe rests upon several fundamental principles. We suggest you begin immediate consideration of legislation to replace the Act of 1981 which will embody the following principles:

1. The minimun loan concept must be discarded. The concept did not have the support of the whole cotton industry when it was hastily conceived by the House conference during the final minutes of the House-Senate Conference on the Emergency Agricultural Act of 1978. In better times, and in the spirit of compromise, the industry reluctantly requested its retention in the current bill. The price support loan level would be established at a level of 90 percent of world prices.
2. The target price concept must be reconsidered. By establishing the target price at levels unrelated to market price or production costs, efficient producers are penalized, unnecessary production of undesirable growths is encouraged, and the concept of payment limitations has prevented effective program compliance at times when carryover stocks reach excess levels.
3. A realistic resale price formula by CCC which will assure the sale of any acquired stocks.
4. Loan periods available to the grower should be set at the original ten month maturity. The loan was designed as a tool for the grower to market his product in an orderly manner during the marketing season. If the grower desires to further speculate on market appreciation, there are other avenues he should explore at his own risk without additional government encouragement and expense.
5. Past loan quality differences have continued to distort the value of loan cotton relative to the market.

Mr. Secretary, the PIK concept is a manifestation of your own and this Administration's boldness and innovativeness. Our industry will support you in its implementation to ensure a return to manageable carryover. Yet our understanding of the functional interrelationships of U.S. cotton to world supply and demand leads us to believe that overall supply problems will not be permanently solved from a defensive upstream supply-side scenario of restriction, but rather from an offensive downstream demand-side scenario of increased markets and market share. Markets will not open and remain open until United States cotton is allowed to compete freely at a world level thus reassuring our customers that the United States intends to be a reliable and steady trading partner.

Most respectfully,

SAMUEL T. REEVES.

II

93TH CONGRESS
1ST SESSION

# S. 36

To authorize special payment-in-kind land conservation programs, to provide authority for activities to develop and expand markets for United States agricultural commodities, and for other purposes.

---

## IN THE SENATE OF THE UNITED STATES

JANUARY 26 (legislative day, JANUARY 25), 1983

Mr. COCHRAN (for himself, Mr. HUDDLESTON, Mr. PRYOR, Mr. MATTINGLY, Mr. HEFLIN, Mr. THURMOND, and Mr. NUNN) introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

---

# A BILL

To authorize special payment-in-kind land conservation programs, to provide authority for activities to develop and expand markets for United States agricultural commodities, and for other purposes.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That this Act may be cited as the "Agricultural Act of 1983".

## TITLE I—SPECIAL PAYMENT-IN-KIND LAND CONSERVATION PROGRAMS

SEC. 101. Effective for the 1983 and 1984 crops, the Agricultural Act of 1949 is amended by adding at the end thereof a new title V as follows:

## "TITLE V—SPECIAL PAYMENT-IN-KIND LAND CONSERVATION PROGRAM

"SEC. 501. Notwithstanding any other provision of this Act:

"(a) To encourage producers to reduce excessive production of agricultural commodities and promote soil and water conservation, the Secretary may formulate and carry out special payment-in-kind land conservation programs for the 1983 and 1984 crops. Under the programs, the Secretary shall make special payments in kind available to producers who divert farm acreage from the production of agricultural commodities and devote such acreage to conservation uses, subject to such terms and conditions as the Secretary determines appropriate. Payments under this section may be made available for the diversion of (1) wheat, feed grain, upland cotton, or rice acreage, without regard to section 110 of this Act and any other provision of law that is applicable to any of the annual programs for the 1983 and 1984 crops of such commodities, and (2) farm acreage devoted to other nonconserving commodities designated by the Secretary (excluding sugarcane, sugar beets, tobacco, and peanuts) for inclusion in a program.

"(b) To be eligible for a payment in kind, a producer who participates in the program for any crop—

"(1) must divert from production and devote to conservation uses, in accordance with requirements established by the Secretary, the acreage of cropland on the farm the producer agrees to place in the program for that crop; and

"(2) must comply with other terms and conditions specified by the Secretary.

"(c) The Secretary shall limit the total acreage diverted from production for a particular crop under a program in any county so as to minimize any adverse affect of the program on the economy of the county or any local community therein. In this connection, the Secretary shall ensure that not more than 50 per centum of the acreage of any commodity eligible for diversion under this Act in any county is diverted from production in such county in any year.

"(d)(1) Payment shall be in kind for acreage on a farm diverted from production for a particular crop and devoted to conservation uses under a program in an amount of the commodity involved equal to the number of acres so diverted from production multiplied by a percentage of the program yield for the farm for the commodity involved, as established by the Secretary, that the Secretary determines appropriate to ensure adequate participation in the program for the crop involved.

"(2) Notwithstanding the provisions of paragraph (1) of this subsection, the Secretary may, to encourage adequate participation under a program, determine the amounts of a commodity payable to producers in accordance with agreements under the program through the submission of bids by producers in such manner as the Secretary may prescribe or such other means as the Secretary determines appropriate, except that, for the 1983 crops, prior to entering into any bidding procedure for a commodity, the Secretary shall offer all eligible producers of a particular crop the opportunity to participate in the program on an equal basis.

"(3) In cases in which a producer practices double cropping, and in which participation in a program for one commodity reduces the acreage that may be planted to the second commodity, the Secretary shall make equitable adjustments in the payment made under this section to account for the reduction in the production of the second commodity.

"(4) Where practicable, the Secretary may allow a producer to consolidate base acreages among farms to encourage participation in a program.

"(e) Payments shall be made by delivery by the Commodity Credit Corporation of the commodity involved to the producer at a warehouse or other similar facility located in the county in which the farm is located or such other location as agreed to by the Secretary and the producer, by the transfer of negotiable warehouse receipts, or by such other method determined by the Secretary as appropriate, including sale of the commodity in commercial markets, to enable the producer efficiently and expeditiously to receive possession of the commodity; or, in lieu thereof, a cash payment, as determined by the Secretary. The Secretary shall take such actions as may be necessary, including the making of cash payments, to ensure that the value of the commodity received by a producer under a program, during the marketing year in which the commodity is received, is not less than 75 per centum of the basic county loan rate for the particular commodity. The Secretary shall, to the extent feasible, ensure that payments are made to producers participating in a program under this section on such schedule and under such terms and conditions as the Secretary determines will minimize any adverse effects of the program on the normal marketings of the commodity (to which the producer is entitled as payment) and will not cause the market prices for such commodity to fall below levels that the Secretary determines to be fair and equitable. Commodities received by producers under a program may not be placed under loan or purchased under the annual commodity programs under this Act, nor may negotiable warehouse receipts or other evidences of ownership of the commodity received by producers under the program be used in such annual commodity programs.

"(f) The requirements established by the Secretary under clause (1) of subsection (b) of this section, with respect to acreage to be devoted to conservation uses, shall ensure protection of such acreage from weeds and wind and water erosion. The Secretary may permit, subject to such terms and conditions as the Secretary may prescribe, all or any part of such acreage to be devoted to sweet sorghum, hay and grazing or the production of guar, sesame, safflower, sunflower, castor beans, mustard seed, crambe, plantago ovato, flaxseed, triticale, rye, or other commodity, if the Secretary determines that such production is needed to provide an adequate supply of such commodities, is not likely to increase the cost of any price support program, and will not affect farm income adversely.

"(g) An operator of a farm desiring to participate in the program for a crop under this section shall execute an agreement with the Secretary providing for such participation not later than such date as the Secretary may prescribe. The Secretary may, by mutual agreement with the producers on the farm, terminate or modify any such agreement if the Secretary determines such action necessary because of an emergency created by drought or other disaster or to prevent or alleviate a shortage in the supply of agricultural commodities.

"(h) If a producer fails to comply fully with the terms and conditions of a program authorized by this section, the Secretary may, nevertheless, make payments in such amounts as the Secretary determines to be equitable in relation to the seriousness of the failure.

"(i) The Secretary may issue such regulations as the Secretary determines necessary to carry out the provisions of this section.

"(j) The Secretary shall carry out the programs authorized by this section through the Commodity Credit Corporation.

"(k) The Secretary shall provide adequate safeguards to protect the interests of tenants and sharecroppers, including provision for the sharing, on a fair and equitable basis, of payments made under this section.

"(1) The provisions of section 8(g) of the Soil Conservation and Domestic Allotment Act (relating to assignments of payments) shall be applicable to payments made under this section.

"(m) The authority and programs under this section shall be in addition to, and not in place of, any authority granted to the Secretary or the Commodity Credit Corporation, or any program, established under any other provision of law.".

## TITLE II—EXPANSION OF MARKETS FOR UNITED STATES AGRICULTURAL COMMODITIES

### EXPANSION OF UNITED STATES AGRICULTURAL EXPORT MARKETS

SEC. 201. The Agriculture and Food Act of 1981 is amended by inserting after section 1209 a new section as follows:

### "EXPANSION OF UNITED STATES AGRICULTURAL EXPORT MARKETS THROUGH THE USE OF COMMODITIES ACQUIRED BY THE COMMODITY CREDIT CORPORATION.

"SEC. 1209A. (a) Notwithstanding any other provision of law, the Secretary of Agriculture may formulate and carry out an export expansion program under which commodities acquired by the Commodity Credit Corporation are tendered at no cost to United States exporters and processors for export, and foreign purchasers, to encourage development, maintenance, and expansion of markets for United States agricultural commodities and the products thereof.

"(b) In carrying out the program authorized under this section, the Secretary of Agriculture shall—

"(1) take such action as may be necessary to ensure that the program provides equal treatment to domestic and foreign purchasers and users of United

States agricultural commodities in any case where the importation into the United States of a manufactured product made, in whole or in part, from a commodity made available for export under this section would place domestic users of the commodity at a competitive disadvantage;

"(2) ensure insofar as possible that any use of Commodity Credit Corporation stocks for the purposes of the program authorized under this section be made in such manner as to encourage increased use, and avoid displacing usual marketings, of United States agricultural commodities and products thereof; and

"(3) take reasonable precautions to prevent the resale or transshipment to other nations, or use for other than domestic use in the nation to which stocks of the Commodity Credit Corporation are shipped, of the stocks of the Commodity Credit Corporation made available to export participants in the program.

"(c) The Secretary of Agriculture shall carry out the program authorized by this section through the Commodity Credit Corporation.

"(d) The Secretary of Agriculture may issue such regulations as the Secretary deems necessary to carry out this section.

"(e) The authority provided under this section shall be in addition to, and not in place of, any authority granted to the Secretary of Agriculture or the Commodity Credit Corporation under any other provision of law.".

### AUTHORITY FOR THE USE ABROAD OF COMMODITY CREDIT CORPORATION STOCKS

SEC. 202. Section 416 of the Agricultural Act of 1949 (7 U.S.C. 1431) is amended by striking out the last two sentences and inserting in lieu thereof the following: "Such dairy products and other agricultural commodities and products thereof acquired by the Commodity Credit Corporation also may be donated through foreign governments and public and nonprofit private humanitarian organizations for the assistance of needy persons outside the United States, and the Commodity Credit Corporation may pay, with respect to commodities and products thereof so donated, reprocessing, packaging, transporting, handling, and other charges, including the cost of overseas delivery. To ensure that any such donations for use outside the United States complement, and are coordinated with, other United States foreign assistance, such donations shall be coordinated through the mechanism designated by the President to coordinate assistance under the Agricultural Trade Development and Assistance Act of 1954 and shall be in addition to the level of assistance programed under that Act. Agricultural commodities and products thereof acquired by the Commodity Credit Corporation may also be used to increase the level of agricultural exports under titles I and III of the Agricultural Trade Development and Assistance Act of 1954 consistent with the purposes of that Act and shall be in addition to the level of assistance programed under that Act.".

### DISPOSITION OF DAIRY PRODUCTS ABROAD

SEC. 203. Notwithstanding any other provision of law, the Secretary of Agriculture is encouraged to donate abroad, or sell for export at the best price obtainable, at least 50,000 metric tons of dairy products owned by the Commodity Credit Corporation, during each of the fiscal years 1983 through 1985. The Secretary shall report semiannually, through September 30, 1985, to Congress on the status of such donations or sales.

### COMMODITY CREDIT CORPORATION SALES OF EXTRA LONG STAPLE COTTON

SEC. 204. Section 407 of the Agricultural Act of 1949 (7 U.S.C. 1427) is amended by adding at the end thereof the following new sentence: "Notwithstanding any other provision of this section, effective beginning thirty days after the enactment of this sentence, stocks of extra long staple cotton held by the Commodity Credit Corporation may be sold for unrestricted use at such price levels as the Secretary determines appropriate to maintain and expand export and domestic markets for such cotton.".

### IMPROVED DISTRIBUTION OF SURPLUS AGRICULTURAL COMMODITIES

SEC. 205. Section 1114(a) of the Agriculture and Food Act of 1981 (7 U.S.C. 1431e) is amended by inserting immediately after the first sentence thereof the following new sentences: "Whenever a commodity is made available without charge or credit, the Secretary of Agriculture shall encourage consumption thereof through agreements with private companies under which the commodity is processed into end products for use by eligible recipients, with the expense of the processing to be borne by the recipients.".

○